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(ROYAL COMMISSION
ON
CO-OPERATIVES)

1945

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(OFFICIAL REPORT)

VOLUME No. VI

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ROYAL COMMISSION ON CO-OPERATIVES

Winnipeg, Manitoba
(February 5, 6, 7, 8, 1945)

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(Pages 1719 - 2272)

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Winnipeg, February 5-8, 1945

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ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Winnipeg, Manitoba, on Monday, February 5, 1945, with sittings continuing on February 6, 7 and 8.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON)	
G. A. ELLIOTT)	
J. M. NADEAU)	Commissioners
J. J. VAUGHAN)	

Eugene T. Parker, K.C.	Counsel
Major H. D. Woods) Associate
J. A. Chapdelaine) Registrars
Colonel G. W. Ross	Executive Secretary

APPEARANCES:

W. B. Francis	Ten Co-operative Associations
G. S. Thorvaldson, K.C.)	Income Tax Payers Association
Herbert Adamson)
A. Leslie Ham	Joint Stock Insurers - fire automobile & Casualty business; Independent Dairies
W. Howard, K.C.)	Private grain interests
W. P. Fillmore, K.C.)	
R. H. Milliken, K.C.	Saskatchewan Co-operatives
S. Searth, K.C.	Manitoba Pools
Walter C. Thomson	Live Stock Commission Merchants
Edwin Loftus	Board of Trade
A. E. Dilts	Independent Dairy & Creamery Companies of Manitoba
H. C. Morrison, K.C.	Retail Implement Dealers

The commission met at 10.30 a. m., Mr. Justice McDougall presiding.

THE CHAIRMAN: Even at the risk of being tedious to those who have followed the Commission so far, I think I should read once more the terms of reference by which the Commission is guided:

The present Commission has been constituted under and in virtue of order in council No. 8725, dated November 16, 1944, for the purpose of inquiring into --

"(a) the present position of cooperatives in the matter of the application thereto of the Income Tax Act and the Excess Profits Tax Act, 1940, and

(b) the organization and business methods and operations of the said cooperatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and

(c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with cooperatives, and reporting in so far as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Tax Act, 1940, to cooperatives and to persons other than cooperatives in respect of methods of doing business analogous to co-operative methods, such as the making of payments commonly called patronage dividends and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest."

Adherence to the foregoing terms of reference is essential to the prompt and efficient completion of the labours of the Commission, and I venture to hope that Counsel appearing before us will be guided by this observation.

I need hardly point out that it is no part of the mission with which we are entrusted to try any particular case or to make a ruling in regard to the tax liability of any person or organization. We shall endeavour merely to find the facts upon which an intelligent report may be delivered, leaving to other authority, as, if and when it is deemed advisable, to implement such recommendations as we may consider appropriate.

MR. PARKER: I have had an opportunity of conferring briefly with a number of Counsel present and have drawn up a tentative list showing the order in which I suggest the cases should be heard. Unless there is some good reason why Counsel find it particularly inconvenient to follow that order, I would ask their cooperation in that regard, because from all appearances I think our time is likely to be fully occupied in Winnipeg.

THE CHAIRMAN: I think it should also be pointed out that briefs that have not been filed in accordance with the notice given must of necessity go to the foot of the list. That seems clear.

Brief presented by Income Tax Payers Association

MR. PARKER: I suggest that we take up first the brief filed by the Income Tax Payers Association. The brief was signed by Mr. Thorvaldson and Mr. Herbert Adamson, both of whom are present. It is lengthy. I have had an opportunity of reading it and I may say that it contains a great

deal of statements of fact. I suggest to Mr. Thorvaldson for his consideration that in presenting the brief it will not be necessary for him to read it in its entirety. There are certain paragraphs which he may desire to speak to. I merely throw that out as a suggestion in order that we may get the benefit of its full contents in the shortest possible time.

MR. THORVALDSON: The first section of this submission by the Income Tax Payers Association will be read by Mr. Adamson and the second section by myself. Mr. Adamson will proceed now.

MR. PARKER: Perhaps we should have an understanding. Mr. Adamson, I understand, is appearing in the capacity of Counsel. Counsel present might wish to ask him questions and I thought perhaps we should have that point settled at the start.

THE CHAIRMAN: You had better declare your representation in detail, Mr. Thorvaldson.

MR. THORVALDSON: Mr. Adamson is appearing, sir, in the capacity both of secretary and of association counsel with myself.

THE CHAIRMAN: I believe some members of the Commission are interested to learn whether this is an incorporated body.

MR. THORVALDSON: No, it is not, Mr. Chairman. Mr. Adamson will make a statement as to the membership of the organization. Any questions that counsel for the Commission would like to ask him as to the association he would be glad to answer.

MR. PARKER: It has been intimated to me by some Counsel present that they will probably want to cross-

examine Mr. Adamson on this, and if so he should be sworn.

THE CHAIRMAN: Counsel can remain at the counsel table, but on questions of fact he had better be sworn.

MR. ADAMSON: The voluntary membership of the Income Tax Payers Association is 6,300 from all across Canada, consisting of Canadian taxpayers, all individual taxpayers. The brief reads:

"Memorandum submitted to The Royal Commission Appointed to enquire into the application of Income Tax and Excess Profits Tax to Co-operative Companies and Associations and to Mutual Corporations by Income Tax Payers Association.

SECTION 1

"(1) Some of the objects of Income Tax Payers Association are:

- (a) To investigate and study the incidence of Income Tax, both generally and as it may affect any particular trade, industry, business or class of individuals;
- (b) To seek and obtain the simplification of Income Tax Laws;
- (c) To inform members of the association from time to time of the provisions of any income tax legislation and of any new developments in Income Tax law;
- (d) To afford income tax payers an opportunity of acting unitedly in making representations to the proper authorities to secure relief from inequalities in Income Tax law or administration; and to give publicity to such inequalities with a view to obtaining the redress thereof.

"(2) Obviously any exemption from taxation concernsevery taxpayer because any exemption either diminishes the

national revenue or increases the burden of taxation on the rest of the taxpaying community. It follows, therefore, that claims to be relieved of a proportionate share of the cost of national defence and of other services rendered by the state should be closely scrutinized from the point of view of the national interest and economy. The appointment of this Commission is therefore welcomed by our members who believe that the existing exemption enjoyed by cooperatives and mutual fire and casualty insurance companies is unjustified.

"(3) The very first of Adam Smith's famous maxims or principles of taxation is:

'The subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the state.'

"An even earlier declaration of the principle is to be found in the Marquis of Halifax's 'Essay on Taxation' written in 1693 (Cobbett's Parliamentary History, Vol. V, App. 12). The author lays down no less than seven general rules or principles which he considers ought to govern the imposition of taxes, the last of which is:

'Seventhly, above all, that equality should be observed in the imposition.'

"(4) Additional authorities for this cardinal principle of taxation might be given but it is so well established that it is unnecessary to mention them; and the authorities given are mentioned only as a reminder of how deeply rooted is the principle in the parliamentary system of government. It is true to say that in England full

recognition of the principle coincided with the establishment of the supremacy of Parliament in the constitution of the Government.

"PART I -- THE DOCTRINE OF MUTUALITY

"(5) In the United Kingdom the income tax liability of co-operatives has been the subject of enquiry by no less than three different committees: the Ritchie Committee of 1905, the Royal Commission of 1919-1920 and the Chancellor of the Exchequer's Select Committee of 1933. The exemption of these organizations has always been statutory and was originally granted them as friendly societies. But although in the 1904-5 enquiry the provident nature or 'thrift' aspect of the co-operatives' activities is mentioned, the main question both on that occasion and upon each subsequent enquiry, was whether having regard to the constitution and operations of the co-operatives their transactions constituted trading and whether the surplus derived from such trading was a profit assessable to tax under the Income Tax Acts of the United Kingdom (Ev. 19, footnote p. 593). The co-operatives claimed that their surpluses were not assessable to income tax because their transactions with their own members constituted mutual trading and that they were, therefore, entitled to exemption under the principles laid down by the House of Lords in the case of the New York Life Insurance Co. v. Styles, 1889, 14 A.C. 381. It is necessary, therefore, as a preliminary, to consider the doctrine of mutuality as stated in this and subsequent cases.

"(6) The doctrine of mutuality as expounded in the Styles case is that there must be two parties to a trading transaction; that where the buyer and seller are identical

there is no trading, or if indeed there be trading that any resulting surplus is not a profit which is liable to income tax because you cannot make a profit by trading with yourself. If, therefore, the insurance company be nothing more than the aggregate of its several members, premiums paid by members for insurance on their own lives are only payments into a common fund for a common purpose. True, the company is the fund-holder but it is merely the agent of the members. If then, the contributions to the common fund prove in the result to be greater than is required to effect the insurances, and the company returns part of the premiums to the members, such dividends are not a distribution of profit made by the company, but are merely refunds of over-payments.

"(7) Lord MacMillan in the case of Municipal Mutual Insurance, Ltd. v. Hills, (1932) 16 T.C. 430, makes the following comment on the Styles case:

'The cardinal requirement is that all the contributors to the common fund must be entitled to participate in the surplus and that all the participators in the surplus must be contributors to the common fund; in other words, there must be complete identity between the contributors and the participators. If this requirement is satisfied, the particular form which the association takes is immaterial.'

"(8) The Hills case illustrates the narrow field to which the principle and the resulting exemption has been restricted. In this case the company carried on a business primarily for the purpose of enabling public bodies to ensure against fire on favourable terms. The company also carried on a considerable business in employers

liability and miscellaneous insurance with members and non-members; and it was held that the company was assessable to tax in respect of the whole of its employer's liability and miscellaneous insurance business, including that portion of such business written for members. The reason was that in respect of employers liability and miscellaneous business mutuality did not exist as some only of the members participated therein. In the case of a distributive co-operative this means that all members would have to purchase every kind of article or commodity dealt in by the co-operative. (See article entitled 'Taxation of Co-operative Dividend' by Professor D. H. MacGregor, Economic Journal, 1933, Vol. 43, p. 40 at p. 55).

"(9) After the Styles case some doubt existed as to whether it was possible in view of the remarks of some of the Lords for a purely mutual company to carry on a trade, but in 1926 the House of Lords decided that a strictly mutual company--a fire insurance company--was carrying on a trade or business and was liable to Corporations Tax then in force in the United Kingdom (Cornish Mutual Assce. Co. Ltd. v. I.R., 1926, A.C. 281).

"(10) In 1927 the House of Lords decided in the case of a company limited by guarantee and formed by employers to indemnify themselves against liability for fatal accident claims that the company's income was not assessable to tax on the principle of mutuality, although the company did not repay to its members the surplus receipts from premium but carried them to reserve. (Jones v. S. W. Lancashire Coal Owners Assn. Ltd., 1927, A.C. 827). The business of the company was confined to its members.

"(11) All these cases are cases of insurance. The only reported case in the United Kingdom dealing with the right of co-operatives to exemption on the ground that the doctrine of mutuality applied, is the case of Commissioner of Inland Revenue v. The Sparkford Vale Co-operative Society, 1925, 12 T.C. 891. In this case Mr. Justice Rowlatt decided that the co-operative society which was a producer or marketing co-operative, was liable to corporation profits tax because (p.894):

'The society here on the case stated before me buys milk from its own members. It is not a consignee for sale for its own members, but it buys from its own members, or so it is stated, and sells again to the public. Now the profit that it makes does not in my judgment in the least arise from trading with its own members. It has no profit from buying milk from its own members, and if the public to whom they sell do not pay for it they do not get any profit at all, or if they cannot effect sales to the general public then they do not make any profits. The profits are made by the selling of the article, not by the buying of it at all, in the meaning of this sub-section.'

Findings of the Ritchie Committee 1905

"(12) As already stated the liability of co-operatives to income tax was the subject of enquiry by three different committees in the United Kingdom, namely: the Ritchie Committee of 1905 (a Departmental Committee), the Royal Commission of 1919-20 and the Chancellor of the Exchequer's Select Committee of 1933.

"(13) The Ritchie Committee held in effect that the operations of the co-operatives constituted mutual trading;

therefore, that neither the surplus derived from their transactions nor the 'divi' should be liable to tax and that the co-ops should continue to enjoy their statutory exemption (Ev. 33, p. 6, para. 25). The Committee reported in part:

' . . .The so-called "dividend" arises from the fact that the prices charged by the society to its members are in excess of cost price. If the goods were distributed at the exact cost price, there would be no "dividend" and it follows that no question of income tax could arise. But the societies, for what they consider good reasons, prefer to fix a scale of prices which leaves a margin over and above cost. Thus an adjustment has to be made periodically, and the balance between cost price and distributing price is divided among the members in proportion to the value of their purchases. This "dividend" is clearly not profit, but merely a return to members of sums which they have paid for their own goods in excess of the cost price. There can be no doubt that the procedure which we have described--resulting as it does in periodical returns to members--is conducive to thrift, and we see no reason for discouraging it.

'A Society may, however, of course, make profit on dealings with non-members. This profit, is in the case of most ordinary societies, very small in amount. But, so far as any such profit is made, and so far as any interest is paid on capital, if that profit or interest comes into the hands of any person whose income is over £160, it ought to be, and it is, taxable.'

"The underscored words make it plain that the finding was based on the doctrine of mutuality and involves the identification of the co-op with its members and ignoring the existence of the co-op as a legal entity or corporation.

Findings of the Royal Commission 1920

"(14) The majority of the Royal Commission of 1920 came to a different conclusion (Cmd. 615, p. 120). They reported:

'550. We have weighed very carefully all the evidence as to the nature of the result of transactions between a distributive Co-operative Society and its members, and we have come to the conclusion that any part of the net proceeds which is not actually returned to members as "dividend" or "discount" is a profit which should be charged to Income Tax.'

THE CHAIRMAN: Are you going to read all through the authorities? We might pass them. The Commission has seen most of these cases that are referred to.

MR. ADAMSON: The only comment is that in these findings of the Royal Commission no distinction is made as to the allowance of the "divi" or patronage dividend as between the joint stock company paying them and the co-operatives. Continuing:

"It should be mentioned that non-member business was estimated by the Board of Inland Revenue at something less than 2% of the total (Cmd. 615, p. 120, para. 547).

"(15) There were twenty-four Commissioners in all and the seven Commissioners who dissented said in part (Cmd. 615, p. 164):

'If there were in the United Kingdom, as there is in the United States of America, a corporation tax

levied specially on corporations as such, it would, no doubt, be proper that a co-operative society should, as a separate legal entity, be made liable to that tax. But the Income Tax is not a corporation tax. It is a tax upon the incomes or profits of individuals, and though for convenience it is assessed in the first instance upon corporations in which they hold interests, the amount of it is always adjusted to the income not of the corporation, but of the individual shareholders. It is true that, when a company receives profits which it does not distribute, the profits are taxed at the standard rate.'

"(16) Four of the Commissioners who signed the majority report made certain reservations. Two of them, Mr. Ernest G. Pretyman and Mr. J. S. Harmood-Banner, stated in their reservation (Cmd. 615, p. 165) that the question of income tax liability should be decided first as a matter of law and that if co-operatives should be found to be exempt from income tax on legal grounds that means should be devised for taxing them, in view of the very large trade carried on by them and the high rate of tax which gave them an advantage over the ordinary trader.

"(17) The other two Commissioners who made a reservation, the late Lord Stamp (Dr. J.C. Stamp as he then was) and Mr. William McLintock, stated (Cmd. 615, pp. 166-7) that if the operations of the co-operatives did not constitute mutual trading there was probably no reasonable or logical ground upon which the divi could be exempt and that viewed objectively it was difficult to see any difference between the activities of the co-operatives and those of an ordinary company. However, as in the

result the practical effect of the majority recommendation was to put co-operatives in the same position as an ordinary trading company, they felt that the majority recommendations were justified. They seem to have agreed with the majority report in treating the divi as a deferred trade discount, not as a matter of principle but on grounds of practical expediency. We do not attempt to make a satisfactory summary of this reservation and the Commissioners will no doubt have the full text of it before them.

"(18) The report of the Royal Commission was duly presented to Parliament but no action was taken on that part of it relating to co-operatives until 1933. In the meantime, the continued growth of the co-operative societies and the progressive increase in the rates of income tax had caused wide-spread dissatisfaction among the ordinary traders of the country; and in order to settle the question, Mr. Neville Chamberlain, as Chancellor of the Exchequer, appointed a special committee to enquire into the position of co-operatives in relation to income tax.

Findings of the Select Committee of 1933

"(19) Before this Committee of 1933 the Co-operatives again contended that they were mutual traders but the Committee unanimously rejected the claim and recommended that they be treated in all respects as ordinary traders. The findings were the same as those of the majority of the Royal Commission of 1920 except that the corporate character of the co-operatives was insisted upon even more emphatically in view of decisions of the Courts in income tax cases since the report of the Royal Commission of 1920. The divi they said should be deductible by the

company as a trade expense and be treated as a deferred trade discount or bonus as the case might be in the hands of the recipient. They reported in part (Cmd. 4260, p.5)."

I take it you have read this?

THE CHAIRMAN: Yes.

MR. ADAMSON: I would read however the following portions which are underscored in the brief.

"A Society which is registered under the Industrial and Provident Societies Act is an incorporated body, and it is clear from judgments of the Courts, since the Royal Commission reported in 1920, that an incorporated body is a legal entity apart from its members. The existence of this entity seems to us to be a matter which cannot be ignored in considering whether there is true mutuality of trading, or not.

"We are unable to see any reasonable ground for holding that the undistributed surplus derived from the trading of a Society with its members should be exempted from Income Tax by reference to the nature of the source from which it arises."

To continue:

Relative Position of Company and Co-Operative and Mutual Corporations in the United Kingdom under Section 31 of the Finance Act, 1933

"(21) The allowance of the divi and insurance bonuses as a trade expense would appear at first sight to give the co-operatives and the mutuals a great advantage over the ordinary joint stock corporation as not many corporations pay divis and such would indeed have been the case if the ordinary joint stock company ultimately paid tax on its distributed profits. The fact is, however, that in the United Kingdom a joint stock company ultimately bears income tax only on its undistributed profits.

"(22) Sir P.J. Griggs, Chairman of the Board of Inland Revenue, described the taxation of the income of companies in the United Kingdom as follows (Ev. 33, p. 86, Q. 923 et seq.):

'The ordinary trading company is taxed (at the standard rate) on the full amount of its profits. It pays dividends to shareholders and it is entitled to deduct from those dividends Income Tax at the standard rate and put the amount deducted back into its own funds in recoupment pro tanto of the tax directly assessed on the company. That means in fact that the company finally bears no tax on its distributed income, but bears tax on the undistributed income at the full rate of 5s. in the £.

Q. Now the undistributed income, is that taxed as a separate entity? A. No, but the tax on it is borne by the company as a separate entity.

Q. That is a separate income? A. No, it is rather what is left of its income after its distributions to individual shareholders.

Chairman: That was decided in Blott's case?

Sir Geoffrey Corbett: And then the shareholders when they receive their dividend are entitled to a refund in the ordinary way? A. Yes. You can put it this way, that as regards the distributed income the company is a mere channel through which the tax is deducted but with regard to the undistributed income the burden rests finally on the company.'

The rest of the authorities are to the same effect. I will skip what follows and come to paragraph 25.

"(25) In other words the company has the statutory right to shift the incidence of the tax on its distributed

profits to the shareholders. The three years average of profits of trading was abolished in 1926 (Konstam, pp. 140 141 and 498) and it is only in exceptional cases that a company is liable to surtax (Konstam, p. 300); the assessment in such cases being designed to prevent accumulation of profits to evade surtax. Thus, speaking generally, the tax imposed on companies in the United Kingdom is not a graduated tax but is at the standard rate which is a flat rate; and the incidence of the tax is, therefore, practically the same as if dividends paid to shareholders were deductible by the company as a trade expense.

"(26) In view of the foregoing it will be seen that if the Royal Commission or the Committee of 1933 had failed to allow the divi as a deduction from the taxable profits of co-operatives that the result would have been to tax a larger proportion of the co-operatives' profits than if they had been ordinary joint stock companies. Such discrimination would certainly have given the co-ops a just cause for complaint.

"(27) That the co-operative societies in the United Kingdom as such enjoy no advantages over the ordinary joint stock company in the matter of income tax is made clear by the following letter from Mr. R. A. Palmer, the General Secretary of the Co-operative Union, Ltd. to the Editor of the Economist, published in the issue for the 15th of July, 1944, p. 82:

'Sir--In the otherwise very admirable article on the Centenary of Co-operation which appears in the issue for July 1st, there is a statement contained on page 21 to the effect that co-operative societies enjoy some taxation advantage. This, however, really is not so. They are subject to taxation in the same

way as all other businesses. They are liable to Income Tax, Excess Profits Tax, and National Defence Contribution on trading profits, and to Income Tax on investments income. They are also liable to pay on the income derived from the ownership of land and property under Schedule D. In short, they are taxable under Schedules A, B, C, and D, like all other businesses and trading organizations.

'The only advantage co-operative societies enjoy, if such it can be called, as compared with limited companies, is that instead of tax being levied on the society in respect to interest on capital and loans, which in the case of companies corresponds to dividend on capital and interest on loans and debentures, it is levied directly on the individual shareholder or loanholder and not upon the society. Thus interest is paid in full before deduction of tax by the co-operative society but the individual recipient must account to the Tax Authorities if he is liable. Ultimately, therefore, the position of a shareholder or loanholder in a co-operative society in relation to taxation liability is exactly the same as that of a shareholder or loanholder in a company, for in the latter case, although interest may be deducted, if the person concerned has income below the abatement levels the tax deducted can be recovered. Otherwise the position so far as taxation liability as between co-operative societies and other trading organizations is exactly the same. There is no point of difference.-- Yours faithfully,

R. A. Palmer

General Secretary, Co-operative Union Limited.'

That means that a joint stock company can compete with a co-operative.

Abolition of Doctrine of Mutuality in the United Kingdom

"(28) The crucial point in the reports of these commissions was that a co-op--being organized as a corporation--is a legal entity apart from its members; and this finding is fully in accordance with cases in the field of company law decided in the Courts since the Styles case, such as *Salomon v. Salomon & Co.*, 1897, A.C. 22 (H.L), and also cases in the income tax field such as the Blott case and the Neumann case decided in the House of Lords since the report of the Royal Commission itself. The finding also follows the principle laid down by the House of Lords in *I.R. v. Duke of Westminster*, 1936, A.C. 1, namely that it is not permissible to go behind the legal nature of the transaction in determining income tax liability and that although it is often said that in income tax cases the Courts will look at the 'substance' rather than the form that the true nature of the legal obligation and nothing else is the 'substance'. (Per Lord Wright, p. 31). Lord Tomlin, said in this case (see pp. 19 and 20):

'Apart, however, from the question of contract with which I have dealt, it is said that in revenue cases there is a doctrine that the Court may ignore the legal position and regard what is called 'the substance of the matter'....This supposed doctrine (upon which the Commissioners apparently acted) seems to rest for its support upon a misunderstanding of language used in some earlier cases. The sooner this misunderstanding is dispelled, and the supposed doctrine given its quietus, the better it

will be for all concerned, for the doctrine seems to involve substituting "the incertain and crooked cord of discretion" for "the golden and streight metwand of the law.'

"And at p. 20:

'The matter was put accurately by my noble and learned friend Lord Warrington of Clyffe when in *In re Hinckes, Dashwood v. Hinckes* he used these words "It is said we must go behind the form and look at the substance . . .but, in order to ascertain the substance, I must look at the legal effect of the bargain which the parties have entered into. So here the substance is that which results from the legal rights and obligations of the parties ascertained upon ordinary legal principles. . . .'

"See also remarks of Lord Greene in *Sothern-Smith v. Clancy*, 1941, 1 K.B. 276 at pp. 282 and 183.

"(29) The finding that the incorporation of the co-op as a company must be given its full effect in deciding income tax liability disposes of the claim of the co-ops to exemption on the principle of mutuality. Similarly in the absence of express statutory exemption it abolishes the right of a purely mutual insurance company to any such exemption where such a company makes a profit. In fact it puts an end to the doctrine of mutuality as applicable to a company doing business with its own members and reinstates the views of Lord Halsburg and Lord Fitzgerald, the dissenting lords in the *Styles* case."

THE CHAIRMAN: Do I understand that paragraph to mean that the decision in *Southern-Smith v. Clancy* had the effect of reversing the House of Lords?

MR. ADAMSON: No, my lord; it is just an additional

authority.

THE CHAIRMAN: "Reinstates the views"; who were dissenting in that case?

MR. ADAMSON: I say that the effect of the legislation and of the findings of these Commissioners reinstates the views of Lord Halsbury and Lord Fitzgerald, the dissenting Lords in the Styles case. It supports their view.

THE CHAIRMAN: It may restate them, but I do not think it reinstates them. However, let us pass on.

MR. ADAMSON: I do not say that as a matter of law they become authorities, but their judgments in that case are valuable in view of the changed position in the Old Country. Continues:

"That is to say, if a co-operative be not the aggregate of its members complete identity--on which mutuality rests--is lost, and the fact that the corporation confines its business to its own members is immaterial. That the Parliament of the United Kingdom took this view of the matter is clear, because s. 31 of the Finance Act of 1933 brings within the scope of the Income Tax Acts purely mutual insurance companies as well as co-ops. Konstam states that the enactment supersedes the principles laid down in the Styles case and in the Jones case (Konstam, p. 72, n. 40 and p. 73, n. 45).

"(30) The finding having been made that income tax in the United Kingdom is assessed directly on a company as such, it follows inevitably that the existence of the company could not be ignored without doing violence to the taxing legislation. A good illustration of this is to be found in the Cornish Mutual Assurance case and the Sparkford Vale Co-operative case already cited--cases which were decided before the 1933 legislation. In each

of these cases the question to be decided was not whether the company was liable to income tax but whether it was liable to a corporation tax (i.e. a 5% income tax imposed directly on the profits of the corporation) and in each case the company was held liable although the plea of mutuality was raised. The minority Commissioners of 1920 appreciated this point as appears from the minority report already cited (see para. 15 of this memorandum). But the view on which their dissent was based namely--that the Income Tax Acts of the United Kingdom do not impose a tax directly on incorporated bodies as such--has been proved erroneous by the subsequent cases.

"(31) From a legal point of view the recognition of the co-op as a legal entity or corporation makes it assessable to tax because the result is that the co-op is carrying on a trade. The position is incisively illustrated by the following questions put to Mr. E. S. London, representing the Board of Inland Revenue by Mr. N. J. Synnott (Ev. 19, p. 960, Q. 19544 to 19549 inclusive):

'Q. To what extent is it strictly mutual; it is not the members who make the contracts, is it?

A. Certainly.

Q. Is it the members who make the contracts for the purchase of the goods? A. For their own purchases, yes.

Q. Is not it the society? A. There are two contracts; the society buys the goods to sell.

Q. The **society** buys the goods and the society sells them? A. Yes.

Q. Therefore the society is the trader? A. The society is the trader, yes.

Q. Well, that is not mutual is it? A. I am afraid

I cannot admit that.'

"And again at p. 961, Q. 19562:

'Q. I have only one more question, and that is, if it be the fact in law and common-sense that the members are not the society, the root of your argument goes?

A. Yes, if the members are not the society, I think so.'

The Exemption of the Divi as a Deferred Trade Discount in the Hands of the Recipient

"(32) While it was necessary in the United Kingdom to allow co-operatives to deduct the divi as a trade expense to maintain equality as between a co-op and an incorporated company inasmuch as the divi corresponds to dividends paid by the ordinary company--which in effect are also deductible from taxable profits--the allowance of the divi as a deferred trade discount to members and non-members is contrary both to legal principle and economic theory. It involves the exemption of the divi in the hands of the recipient regardless of whether the income of the recipient be above the exemption level or not. It cannot be denied, of course, that before the Royal Commission and the Select Committee the evidence was that deferred trade discounts paid by ordinary traders were being allowed as deductible trade expenses by the Board of Inland Revenue (Ev. 19, p. 958, Q. 19505 and Ev. 33, p. 86, Q. 922 and p. 101, Q. 1098-9). But this practice would appear to be contrary to the principles laid down in Last's case herein-after mentioned, at least where the payment is not voluntary but made pursuant to a contract express or implied. One cannot help feeling that in treating the divi as a deferred trade discount or bonus to the recipient that the Commissioners were greatly influenced by the estimate that only about $12\frac{1}{2}\%$ of the recipients would be in

the income tax paying class in any case (see Law Quarterly Review, Vol. 38, p. 48, article by Mr. G. H. Crichton). . . The Select Committee's recommendation to tax the shareholders of Co-operative Societies directly also indicates the statistical position in 1933 (Cmd. 4260, para. 26). It is submitted that the true position is to use the language of Lord Stamp and Mr. William McIntock (Cmd. 615 p. 167):

'Once "mutuality" is abandoned as a ground for exemption there is probably no logical stopping short of the position that the whole advantages accruing to the individual participating in this form of collective action should be treated as income...'

"(33) This is also the view of other economists, including economists who believe that co-operatives should not be assessed for income tax. For instance Professor Pigou, who was a member of the Royal Commission of 1920 and signed the minority report on co-operatives, says in an article in the Economic Journal entitled 'Co-operative Societies and Income Tax' Vol. 30, 1920, p. 156:

'... But to decide that the proceeds of mutual trade are not profits from the income tax point of view when they are distributed in dividends on purchases, and are profits when they are not so distributed, is to make the nature of these proceeds depend, not on their origin which is clearly the proper test - but on their destination, which is no test at all . . .'

"See also 'Co-operators and the State' by Mr. C. R. Fay (a member of the Council of the Royal Economic Society) vol. 43, Economic Journal, p. 414 at p. 422.

"(34) Certain words of Lord FitzGerald in his dissenting Judgment in the Styles case are applicable to the situation. He says at p. 402:

'Thus far, my Lords, my effort has been to ascertain, if practicable, the true position of the participating policy-holder in relation to the corporation. I have already pointed out that he fills two distinct capacities; first, as an individual assured by the corporation; secondly, as a member of the corporation by which he is assured.'

"And again at p. 405:

'Then if this net balance of premiums is income of the corporation, the Queen's taxes on it cannot be affected by its future application. On this head Lord Selbourne, at p. 907 of *Mersey Docks v. Lucas*, 1883 8 A.C. 891, says: "The mode of the application makes no difference whatever to the question of what is profit and what is gain."'

"(35) In some of the cases statements of the Judges seem to be to the effect that the destination of the profit is a factor in determining liability to income tax, namely; *Municipal Mutual Insce. Ltd. v. Hills*, 1932, 16 T. C. 430 per Viscount Dunedin at p. 440; and *Jones v. S. W. Lancashire Coal Owners Assn. Ltd.*, 1927, 11 T.C. p. 790 per Rowlatt, J., at p. 822. The passage last referred to is quoted by Mr. A. Hook in his memorandum (Ev. 33, p. 58) and is as follows:"

THE CHAIRMAN: I do not know whether my colleagues are deriving any benefit from the reading of these cases. I do not think it helps matters very much reading them in court unless you have some particular reason.

MR. ADAMSON: It is just developing the argument that the true test of income tax liability is the way the profits originate and not the way they are distributed. What I wish to say is that there are other views; I do not say

there are not.

THE CHAIRMAN: We have come to that conclusion already, that there are other views.

MR. PARKER: I would ask my learned friend to tell us what his views are.

THE CHAIRMAN: I do not want to restrict you, Mr. Adamson, but I do not think the reading will benefit us at this moment.

MR. ADAMSON: Shall I omit that passage?

THE CHAIRMAN: I think you can leave the authorities to be read by the Commission, and pass on to your comments.

MR. ADAMSON: Very well, Mr. Chairman.

"This statement may appear at first sight to be at variance with the decision in the Lucas case but upon a reading of the whole passage the meaning simply is, it is submitted, that in the Jones case there was no profit because there was in Rowlatt, J's opinion no trading. But in any event why treat the proprietary interest as the deciding factor in the case of the shareholder-customer of the company and ignore this interest in the case of the member-customer of the co-op? We would refer to the statement of Lord Selborne in the Lucas case which is quoted by Konstam at p. 102 as being a correct statement of the law, namely:

'The gains of a trade are that which is gained by the trading for whatever purposes it is used, whether it is gained for the benefit of the community, or for the benefit of individuals. Whether the benefit is to be obtained by dividends, or whether it is to be obtained by lightening and diminishing public burdens, it is the same.'

"(36) As a matter of law--and apart of course from statutory exemption--it would appear that there can be no such thing as a deferred trade discount on purchases paid in money pursuant to a contract express or implied either with a joint stock company or a co-operative which is not in fact a distribution of profit and taxable as such. On this point we would refer to Mr. G. H. Crichton's article in vol. 38 of the Law Quarterly Review, p. 48, entitled 'Co-operative Societies and Income Tax' at pp.54, 55 and 56. It is impossible to distinguish between such a dividend and a dividend paid on share capital. The only difference is the basis of distribution; in each case the recipient has bargained with the company for a share of its trading profits. This, it is submitted, is the effect of the decision in Last's case. It must be acknowledged that the view of the Board of Inland Revenue was otherwise (see Ev. 33, p. 11, para. 39). Of course, the question in Last's case was whether the sums payable to the participating policy-holders could be deducted from the taxable income of the assurance company; nevertheless, it is clear that the sums distributed by the assurance company in that case to the participating policy-holders would be taxable as income in their hands.(See Konstam p. 232.)"

Then follows the passage from Last's case. I would add another citation if I may -- Wright, Stevenson and Company Limited against the Commissioner of Taxes, 1921, 40 New Zealand Law Reports, 633, referring particularly to the judgment of Sir John Salmon in that case. It was inadvertently omitted. I come now to paragraph 38.

"(38) The mere fact that the Board of Inland Revenue was allowing the ordinary trading company to deduct

deferred trade discounts as a business expense hardly justifies such an exemption in the case of a co-op with the resulting immunity from tax in the hands of the recipient. If liability to income tax is to be determined by reference to the recipient of the dividend then it should be pointed out that in the case of the former the recipient of the dividend is a customer only and he has no proprietary interest; whereas the member of a co-op is not merely a customer but is a member thereof--that is, a person who has a proprietary interest in the co-op (Ev. 33, p. 58, para. 444 and p. 60, para. 6)--as in the case of a shareholder in an ordinary joint stock company or as in the case of a shareholder in the co-op, or as in the case of the participating policy holders in the case of *Last v. London Assurance Co.*, 1885, 10 A.C. 438 (H.L.); he has contracted for a share of profits. The majority Report of the Royal Commission recognizes this difference; the Commissioners say (Cmd. 615, para 553):

' . . . Dividends on purchases allowed to non-members are not quite in the same category as dividends paid to members, because in the case of members the discount or dividend is an essential part of the bargain. A purchase by a member is made on the distinct understanding that if the funds of the society permit, a dividend or discount or rebate will in due course be forthcoming. Whether there is this same implied contract where a non-member purchases we do not know; but the absence of any such understanding would make the dividends paid to non-members even more truly a discount, and therefore a trading expense to the society.'

"(39) On this phase of the subject we submit for consideration an extract from the article by Mr. G. H. Crichton in Vol. 38 of the Law Quarterly Review which has already been mentioned. Mr. Crichton says at p. 57:"

I will omit the next two paragraphs.

"(40) One defence of the allowance of the divi as a deferred trade discount and its consequent exemption from tax in the hands of the recipient--unless of course, it enters into the recipient's own trading account--as in *Pope v. Beaumont*, 1941, 2 K.B. 321--is that to tax it would involve the fallacy that the higher the prices which the members of the co-op are called upon to pay, the greater will be the profits to the member. This point is stated by Lord Herschell in his speech in the *Styles* case at p.410. But implicit in this argument is the doctrine that the co-op and its members are one, i.e., identical; it is simply the mutuality argument in another form. If the co-op be regarded as a separate legal entity the higher the prices charged the greater will be the profit to the co-op as would be the case if a joint stock company did business only with its shareholders and charged them more than market prices on their purchases. In the case of the latter, no one would suggest that the profits of the company should be less than the surplus actually realized from the transactions and be reduced in some way because they had charged their shareholder customers more than the market price. See also in this connection Lord Stamp's 'Principles of Taxation' (1936 Edn.) at pp. 35-37 where Lord Herschell's argument of 'arbitrariness' is stated at p. 37 from the viewpoint of taxpaying ability and on the basis of the Ritchie Report of 1905 which he quotes.

"(41) The divi should not be exempt in the hands of the

recipient or be allowed as a deferred trade discount because:

- '(a) The Surplus out of which the deferred trade discounts are paid was found to be taxable profit; and legally and economically the divi is in the same category as profits put to reserve which the reports of the commissions referred to found should be taxed (i.e. that it was a trading profit). The divi and the reserve are derived from the same source; they originate in the same way.
- '(b) The basis upon which the distribution of profits is made should have no bearing on liability for income tax; the true legal and economic test is how the profits originate; and the destination of the profits is immaterial in deciding whether the profits are taxable. (Mersey Docks and Harbour Board v. Lucas, 1883, 8 A.C. 891; 2 T.C. 25). To describe the divi as a deferred trade discount is arbitrary. One might as well describe a dividend on shares paid by a joint stock company as a deferred trade discount. The only difference between the two dividends is that in the case of the co-op the distribution of the profits is on the basis of purchases by members whereas in the case of the company the distribution is based on the ownership of shares of stock owned by members (Ev. 19, p. 961, Q. 19555). If however, liability to income tax is to be determined by reference to the recipient of the dividend it may be said that in the case of both the co-op and the company the recipients are the proprietors or represent the proprietary interest (Ev. 33, p. 58, para. 444 and p. 60, para 6). Both the member and the shareholder have entered into

a contract with the co-op or company whereby he is entitled to receive a share of profits. In other words, the customer of the co-op is not only a customer, he is an investor as well.

- ' (c) The distribution of the divi is pursuant to a contract express or implied between the co-op and the members, as in the case of shareholders in a company or shareholders in the co-op itself; and where there is such a contract the rule in *Last v. London Assce. Co.* 1885, 10 A.C. 438 (H.L.) applies. *Last's* case has been discussed in the recent cases of *Union Gold Storage Co. Ltd. v. Adamson* 1931, 146 L.T. 172 at p. 179 and in *British Sugar Manufacturers, Ltd. v. Harris*, 1938, 2 K.B. 220 at pp. 233 and 234. In the *Harris* case Lord Greene, M.R., said after quoting a passage from Lord Blackburn's speech in the *Last* case:

"...Now that was what in *Last's* case had happened.

The policy-holder was treated as having purchased a share of profits. If a person purchases a share of profits, of course, the profits paid to that person cannot be deducted; that is quite obvious."

- ' (d) The shareholders of the co-operative as distinguished from its members have no voice in the administration of the co-operative (Ev. 33, p. 58, para. 444, and p. 60, para 6). The interest of co-operative shareholders does not go beyond the amount of their share. Thereafter any equity in assets of the co-operative would belong to members.
- ' (e) There is a vast difference between a cash discount-- such as for instance the purchase of a \$3 shirt at a mark-down or bargain price of \$2.50--and a deferred

trade discount such as a divi. In the case of the former the discount is given unconditionally and no money representing the discount changes hands; whereas in the case of the latter the deferred trade discount is conditional upon profits being made out of which the discount can be paid. In a case in the Privy Council, *Pondicherry Railway Co. Ltd. v. Commr. of Income Tax, Madras, 1931*, 58 Indian Appeals, 239, Lord MacMillan said:

"A payment out of profits and conditional on profits being earned cannot accurately be described as a payment made to earn profits. It assumes that profits have first come into existence. But profits on their coming into existence attract tax at that point, and the revenue is not concerned with the subsequent application of the profits."

"(42) One of the claims advanced by co-operators with great persistence is that the divi represents 'savings' and should, therefore, not be taxed. If, however, this 'saving' is received in money and be effected by means of investment in a business and sharing the profits such a 'saving' is no more entitled to exemption than any other investment. One of the criticisms of an income tax is that it is a tax on savings. Professor Irving Fisher, Professor Emeritus of Economics of Yale University, who is a strong advocate of the exemption of all savings from income tax, said in a hearing before the Committee of Finance of the United States Senate on August 14, 1942:

'I have no patent on this idea that to tax savings is unwise. John Stuart Mill, the great English economist, philosopher, and parliamentarian, stated the principle clearly and crisply in the following

words:

"If, indeed, reliance could be placed on the conscience of the contributors; or sufficient security taken for the correctness of their statements by collateral precautions, the proper mode of assessing an income tax would be to tax only the part of income devoted to expenditure, exempting that which is saved. For when saved and invested (and all savings, speaking generally, are invested) it thenceforth pays income tax on the interest or profit which it brings, notwithstanding that it has already been taxed on the principal. Unless, therefore, savings are exempted from income tax, the contributors are twice taxed on what they save, and only once on what they spend. To tax the sum invested, and afterward tax also the proceeds of the investment, is to tax the same portion of the contributor's means twice over."

"Mill gave evidence to the same effect in 1861 before the Select Committee on Income and Property Tax (See Parl. Papers, 1861, Vol. VII). See also Professor Fisher's speech entitled 'Taxes on Savings Will Destroy Expansion' delivered before the Federal Bar Tax Law Institute at New York on the 23rd of March, 1944, and published in the issue of the 15th of May, 1944, of 'Vital Speeches of the Day;' and his book entitled 'Constructive Income Taxation' written in collaboration with his brother Mr. Herbert W. Fisher. Lord Stamp discusses the subject in his book 'The Principles of Taxation' at pp. 59-61. He says that the claim to exempt savings is a claim to 'favour' savings rather than to remove a burden on it. To exempt savings would, of course, mean a complete revision of our

income tax law.

"(43) We would refer the Commissioners to the following literature on the subject of the taxation of Co-operative and Mutual Corporations some of which we have referred to before:

- (a) 'The Principles of Taxation', Sir Josiah Stamp, London, 1936.
- (b) Law Quarterly Review, Vol. 38, p. 48, article by Mr. G. H. Crichton entitled 'Co-operative Societies and Income Tax.'
- (c) Journal of Comparative Legislation, 3rd Series, 1922, Vol. 4, p. 116, article entitled 'The Principles of Income Tax', being a comment on Mr. Crichton's article.
- (d) Economic Journal, Vol. 30 (1920) p. 156, 'Co-operative Societies and Income Tax' by Prof. A. C. Pigou.
- (e) Economic Journal, Vol. 43 (1933) p. 40, 'Taxation of Co-operative Dividend' by Prof. D. H. MacGregor.
- (f) Economic Journal, Vol. 43, p. 414, 'Co-operators and the State' by C. R. Fay.
- (g) The Economist, March 4, 1933, 'Taxation of Co-operatives.'

PART II

CONSTITUTION OF CANADIAN CO-OPERATIVES

"(44) There does not appear to be any Dominion legislation dealing specially with the incorporation of co-operatives, but every province has legislation dealing with the subject and it is proposed to review only the Manitoba legislation with brief reference to similar legislation in Ontario, Saskatchewan, Alberta and British Columbia.

"(45) In Manitoba the incorporation of co-operatives is provided for by Part VII of The Companies Act, Revised Statutes of Manitoba, 1940, Cap. 36, Section 124 of the Act provides that the provisions of Part II of the Act shall apply to co-operative corporations, substituting for the words 'share' and 'shareholder,' 'membership' and 'member' respectively. This means that the members

correspond to the shareholders of an ordinary company. They elect the executive and the ultimate control is in their hands."

I do not know whether you want me to read these passages.

THE CHAIRMAN: We have had that legislation under review in the three western provinces.

MR. ADAMSON: Then I will pass on to paragraph 53. "(53) It is clear from these enactments that no co-operative can lawfully do business in the provinces mentioned under the name of 'co-operative' without being incorporated under either the said statutes or by special Act; that the said companies are administered by means of an executive or board of directors elected by the members and that the members are the beneficial owners of the business, i.e., the equity in the co-operative assets belongs to them. Capital is contributed by the issuing of shares, by membership fees and annual fees, and deductions for reserve are obligatory in some of these provinces also. The profit may be divided between members on the basis of the volume of purchases or between members and non-member patrons on such basis after, of course, providing for whatever interest the directors decide to pay on the shares issued. The only notable difference between the constitution of these corporations and ordinary corporations is that the profit shall be divided 'wholly or in part among the members or amongst members and patrons, in proportion to the volume of business which they have done with or through the corporation.'

"(54) There is no condition laid down that if the profit or surplus is to be divided among only the member patrons in proportion to their purchases or other transactions

that in that case the business done by the co-operative shall be restricted to members. Whether these corporations are or are not co-operatives, therefore, is a question of how they actually operate; co-operative principles are not inherent in their constitution. See *Shelly v. Federal Commissioner of Taxation*, 43 C.L.R. 208. A co-operative enterprise usually belongs to the people who use its services.

The Canadian Wheat Pools

"(55) With regard to the Canadian Wheat Pools our information is not complete but we believe the following outline of their activities is fairly accurate.

"(56) Manitoba Pool Elevators Ltd. was incorporated by special Act of the Province of Manitoba in 1925 with a capital of one million shares of \$1 each and in 1929 this capital was increased to 5 million shares of \$1 each. All shares were originally owned by the Manitoba wheat Pool and on the bankruptcy of the latter were acquired by the Province of Manitoba. In 1940 the entire capital was cancelled by amendment to the Act of Incorporation and it was provided that the company should be composed of members instead of shareholders and membership was conferred on local elevator associations. The method of distribution of profits was to be on the basis of the volume of grain shipped by members and handled by the company. Manitoba Pool Elevators Ltd. now operates about 209 country grain elevators as licensed managers under The Canada Grain Act.

"(57) The Saskatchewan Wheat Pool was incorporated in 1923 under the name of Saskatchewan Co-operative Wheat Producers Ltd. with an authorized capital of 100,000 (later increased to 200,000) shares of \$1 each; and in

1924 this incorporation was confirmed by a special Act of the Province. Payment of dividends on shares was prohibited and shareholders were to lose their right to vote if they ceased to hold a contract with the company to market their grain through the company; and thereupon their shares might be forfeited.

"(58) Saskatchewan Co-operative Wheat Producers Ltd. owns the entire interest in three subsidiary companies, namely, Saskatchewan Pool Elevators Ltd. (which owns and operates country grain elevators); Saskatchewan Pool Terminals Ltd., owning and operating terminal elevators; and Modern Press Ltd. This company publishes a weekly newspaper known as 'The Western Producer' and also operates a job-printing department. Saskatchewan Co-operative Wheat Producers Ltd. also owns a one-third interest in Canada Pool Agencies Ltd., the insurance agent of the three western wheat pools; and in addition thereto a one-third interest in Pool Insurance Ltd., which was incorporated by Dominion Parliament in 1940, Cap. 50. In 1934 the provision with regard to contracts by shareholders was modified to allow the allotment of shares to any grower of grain in Saskatchewan without such person executing a contract to deliver grain to the company. Saskatchewan Pool Elevators Ltd., operates about 1126 country grain elevators as licensed managers under The Canada Grain Act.

"(59) The name of Saskatchewan Co-operative Wheat Producers Limited was changed recently to Saskatchewan Co-operative Producers Limited; and it appears from an article in their paper, the Western Producer of the 23rd of November, 1944, that:

'A program of co-operative industrial development in Saskatchewan estimated to cost \$2,500,000 for the utilization of farm crops and for the production of commodities used in the farm homes was approved by delegates of Saskatchewan Co-operative Producers Limited in session in Regina.

'The development planned is to be located at Saskatoon, where a 21-acre site has already been acquired between Thirty-third Street and Avenue A in the industrial section of the city.

'The first unit to be developed will be a two-expeller vegetable oil plant capable of processing 1000 bushels of flax a day and capable of handling flax, sunflower seeds or Argentine rape. Construction work on the first unit will be started about March 15, 1945.'

"(60) The Alberta Wheat Pool was originally incorporated as Alberta Co-operative Wheat Producers Ltd. in 1923 under the provisions of the Alberta Co-operative Associations Act, and in 1924 this incorporation was validated and confirmed by special Act of the Province; again in 1929 the incorporation was confirmed and ratified as 'a body corporate and politic under the name and style of Alberta Wheat Pool.' The powers of a common law corporation created by Charter were conferred upon the company and s. 35 of the Act provided that 'the interest of the members in the assets of the pool shall be in proportion to their contributions thereto.' Alberta Wheat Pool operates about 436 country grain elevators as licensed managers under the provisions of The Canada Grain Act.

"(61) It is clear from the foregoing that these pool organizations are corporations and that the members or shareholders own the equity in the corporate assets.

This equity in the case of the Saskatchewan and Alberta Pools would appear to be subject to liabilities to members of the original pools for commercial and elevator reserves which we understand are very large in amount.

"(62) Although these organizations describe themselves as 'pools' and 'co-operatives' the fact seems to be that in so far as their country grain elevator and terminal elevator business is concerned that they operate in the same way as other grain companies licensed under the provisions of The Canada Grain Act; and that they are pools or co-operatives only to the extent to which operations under the said Act would constitute pooling or co-operation.

"(63) As for the grain business of the western wheat pools being restricted to their members or to any particular percentage thereof this would seem to be impossible under the provisions of The Canada Grain Act. By s. 108 of the Act the operators or managers of public country elevators are under a statutory duty as licensees to receive all grain offered for storage without discrimination. In addition large quantities of grain owned by non-producers are marketed through the elevators of the pools. This grain very largely belongs to vendors or lessors on a crop share basis or to mortgagees as lessors under a collateral share of crop lease; much of it is owned by trust and mortgage companies or their principals. Moreover, the pools of recent years have operated as agents of The Canadian Wheat Board under agreement with the Board which requires them to comply with the provisions and regulations of The Canada Grain Act and also provides that the agent shall accept delivery of wheat on behalf of the Board from any producer subject to the terms of the

agreement and the quota regulations.

The Growth of Canadian Co-Operatives

"(64) The Dominion Department of Agriculture has recently issued statistics of co-operatives in Canada for the year ending December 31st, 1943, entitled 'Co-operation in Canada, 1943.' The report has been prepared, it is stated, by Mr. A. E. Richards and Miss Lucienne Lalonde of the Economic Division of the Department of Agriculture. The report says in summarizing the returns received from 1675 active co-operative associations:"

I will skip to paragraph 65.

"(65) We would particularly stress the statement in this report that the equity in these organizations belongs to the members as in the case of ordinary corporations. The division of profit may be on a different basis but the profit is earned in the same way, namely, by buying and selling, and this is particularly true of the grain business of the western pools which are obliged to operate in the same way as other grain companies under the provisions of The Canada Grain Act, The Canadian Wheat Board Act, and regulations under these statutes. The following passage from the report of the Royal Commission on the income tax of 1920 (Cmd. 615, p. 121, para. 560) applies to these marketing co-operatives:

'560. A recent development of the co-operative movement is the agricultural society, a combination of farmers for the purpose of eliminating the middleman's profit from the cost of goods required for their business, or of increasing the selling price of their produce by eliminating the profits which would otherwise be made by a selling agent. The position of these societies with reference to the Income Tax is

different from that of the distributive societies in that the members of an agricultural society are taxable trading units, and the goods which the society purchases for distribution among its members are not for private consumption, but for use in a business. The intention is not to reduce the cost of goods consumed, but to increase the profits of a business. Dividends on purchases paid by an agricultural society are nevertheless discounts, but trade discounts which must be taken into account in computing the profits of the members.'

"(66) The growth of the co-operatives, both in resources and number, particularly in recent years, is remarkable, and justifies the claim of the co-operatives that they are 'on the march.' There is no doubt that a great deal of their strength and growth is due to the non-payment of Income Tax and Excess Profits Tax which enables co-operatives to keep for reserve or expansion, profits which are taken in taxation from other classes of business and industry. A striking example of this is provided by the present situation in the grain handling industry of western Canada. This industry is declared to be for the general advantage of Canada and maximum tariffs of charges are fixed by the Board of Grain Commissioners. The Canadian wheat pools, already referred to by reason of the nonpayment of Income Tax and Excess Profits Tax have acquired a financial strength which enables them to reduce handling charges to an extent which threatens to wipe out the investment of the tax paying companies--companies which hitherto have done 60% of the business. What has happened in one industry may happen in other industries into which co-operative corporations may

choose to enter with the great advantage over their competitors which immunity from income tax confers.

"(67) As bearing upon the ownership of these co-operatives we quote the following circular letter to producers written by Northern Alberta Dairy Pool Ltd. Clearly the ownership of the assets of the co-ops is one of the inducements offered to prospective members. The letter reads:

'A PRODUCER OWNED CO-OPERATIVE
NORTHERN ALBERTA DAIRY POOL, LIMITED

Head Office
Edmonton, Alberta

November 1, 1944.

'Dear Producer:

On Monday, November 6, the Northern Alberta Dairy Pool will take over the ownership of the Burns & Company creamery in Edmonton, and will continue to operate this plant.

As you have been a shipper to Burns' plant, we extend to you an invitation to continue your shipments to this plant.

Dairy Pool shippers receive an advance payment on their cream, which closely approximates the price paid by private creameries, and at the end of the year, a final payment is made, distributing all earnings. Over the years, the Northern Alberta Dairy Pool has always returned to the producer, a higher price for butterfat than its competitors. Thousands of cream producers have enjoyed these co-operative benefits and now we invite you to join with them by shipping your cream to the producer owned Northern Alberta Dairy Pool.

You will no doubt be approached by other creamery interests to ship cream to them, but before making your decision, we would ask you to consider the following facts:

'1. Who makes it possible for a creamery to operate?

Answer: The Producer.

2. Who receives the earnings or profit from a privately owned and operated creamery?

Answer: Not the Producer.

'No matter where you ship your cream, a part of the value of your cream goes to pay for the building and equipment used in that creamery and to make a profit for someone. Despite the fact that you help pay for these facilities, you can never claim to have a share in the ownership of them, nor do you receive the earnings made from the processing of your cream, unless the creamery you ship to is a producer owner co-operative. When you ship to the Northern Alberta Dairy Pool you share in the ownership of the facilities you help provide through your cream shipments and all earnings over operating costs are returned to The Producer.

'Think it over, and we feel sure you will want to share in the benefits of co-operative marketing by shipping your cream to the Northern Alberta Dairy Pool.

Yours very truly,

NORTHERN ALBERTA DAIRY POOL LIMITED.'

"We would also refer in this connection to an article appearing in the Co-op News of December, 1944, entitled 'Why Alberta Farmers join Co-operatives.' In this article it is stated among other things:

'.....He can use all the initiative at his command in carrying on his business because he and his fellow members are the sole owners of the co-operative enterprise.'

I will omit the next few paragraphs and go on to Part III.

PART IIITHE INCOME WAR TAX ACT AND CO-OPERATIVES AND
MUTUAL CORPORATIONS

"(70) Section 4 (p) of the Act exempts only co-operative companies or associations engaged in marketing products for primary producers or like associations. In order to qualify for exemption a company or association must comply with all the statutory conditions, namely: (1) It must be organized and operated on a co-operative basis; (2) It must market the products of members or shareholders under an obligation to pay them the proceeds on the basis of quantity and quality less necessary expenses and reserves; (3) If the company or association also purchases supplies and equipment for the use of members such supplies and equipment must be turned over to members at cost plus necessary expenses and reserved; (4) value of non-member business must not exceed 20% of the value of business done for members or shareholders; (5) Although the co-operative may have share capital it would appear that the payment of dividends on such shares would have the effect of disqualifying the co-operative as proceeds of sales must be distributed on the basis of quantity and quality.

"This exemption extends to companies or associations owned or controlled by such co-operatives and organized for the purpose of financing their operations.

"In addition to the foregoing, s. 4 (q) of the Act provides for the exemption of the income of any banking institution organized under co-operative provincial legislation whose loans are restricted to the province.

"By s. 7 (a) of the Excess Profits Tax Act the companies and associations qualifying for exemption from

income tax under s. 4 (p) and (q) are exempted also from Excess Profits Tax.

"No comment need be made on these provisions. Obviously the exemption granted is conditional upon each and all of the statutory conditions being fulfilled; otherwise the exemption is lost. In *Lumbers v. Minister of National Revenue*, 1943, Ex. C.R. 202, Thorson, J., President of the Exchequer Court said, (p. 211):

'...Just as receipts of money in the hands of a taxpayer are not taxable income unless the Income War Tax Act has clearly made them such, so also, in respect of what would otherwise be taxable income in his hands a taxpayer cannot succeed in claiming an exemption from income tax unless his claim comes clearly within the provisions of some exempting section of the Income War Tax Act; he must show that every constituent element necessary to the exemption is present in his case and that every condition required by the exempting section has been complied with....'

The Administrative Exemption of Distributive Co-Operatives

"(71) The foregoing are the only provisions of the Act exempting co-operatives. However, in addition to the exemption co-operatives. However, in addition to the exemption of marketing co-operatives a de facto exemption has been conferred by administrative ruling or practice upon the incomes of distributive co-operatives, including co-operative wholesale and retail stores. Such stores do not qualify for exemption under s. 4 (p) as 'other like co-operative companies and associations.' It cannot be that this de facto exemption has been granted by the

Commissioner of Income Tax on the ground that such concerns are entitled to exemption as mutual companies; in such case they would be subject to the provisions of s. 4 (g) of the Act which restricts the exemption of mutual corporations to such as have no share capital; and in addition all transactions would have to be restricted to members of the association. But we understand the exemption has not been so restricted. Moreover the entire income of the co-operative would in such case be exempt, whereas the practice has been to treat as exempt only the patronage dividend.

The Exemption in Practice

"(72) The statutory exemption of a marketing co-operative means in practice, the exemption of the income of the co-operative as distinct from its members. Distributions to shareholders by way of dividend on shares would appear to be prohibited as already stated; but patronage dividends which, of course, are not assessed in the hands of the co-operative are taxable in the hands of the recipient if his individual income exceeds the exemption level, because even if the dividends be regarded as bonuses or rebates, they are in effect an increase in the price of the product sold by the producer and form part of his trade or taxable business receipts. Income from reserves and undistributed surplus is exempt.

"(73) The tax position of the distributive retail co-operative under administrative ruling differs somewhat from that of the marketing co-operative. The patronage dividends paid by distributive retail co-operatives are deductible not only in the hands of the co-operative as a trade expense, but also they are exempt from taxation

in the hands of the consumer as a refund, rebate or deferred trade discount or bonus. Thus the virtual or de facto exemption of patronage dividends, in the case of distributive retail co-operatives is a two-fold exemption; once in the hands of the co-operative and again in the hands of the recipient. Income from reserves, it is understood, and undistributed surplus is taxed.

"(74) In the case of the wholesale co-operative, patronage distributions to its members are deductible as a trade expense from the association's own income, but are taxed in the hands of the retail co-operative store as a trade receipt, being treated in effect as a reduction in the price to the retailer of the goods purchased by him and so entering into his own business or trade account.

"(75) The following table sets out the present application of the income tax to joint stock companies, marketing co-operatives and distributive co-operatives so far as we have been able to ascertain it:

	Joint Stock Company	Marketing Co-operative Corporations Complying with S. 4 (P)	Wholesale and Retail Distributive Co-operative Corporations
Trading profits in hands of company or association	Taxed whether distributed as dividends or placed to reserve	Exempt whether distributed as dividends or placed to reserve	Taxed after deduction of any patronage dividends paid.

Dividends in hands of recipients:

Patronage dividend	Taxed?	Taxed because entering into producer-recipients trading account	Exempt unless entering into recipients trading account.
Dividends on shares	Taxed	Payment of dividends on share capital not allowed	Taxed

"We understand the administrative practice has been not to require that a dividend be declared on the share capital of distributive co-operative corporations before allowing the patronage dividend as a trade expense.

"(76) We understand that recently the Commissioner of Income Tax has made a change with regard to the distributive co-operative corporations whereby they are required to comply with the provisions of s. 4 (p) of the Act as if this subsection applied to them. But as already stated we submit that s. 4 (p) applies only to marketing co-operatives which in addition to marketing their members' produce, are engaged also in purchasing supplies and equipment for the use of their members. We believe, however, that before this ruling was made that distributive co-operative corporations were treated as stated in the above tabulation; that is to say, their patronage dividends were not taxed either in the hands of the co-operative or in the hands of the recipient, and that s. 4 (p) was considered in-applicable to such co-operatives. The following statement made by Mr. George Keen, Secretary of the Co-operative Union of Canada in 'The Budget' for the 6th of September, 1941, would indicate this. Mr. Keen said:

'Successive chancellors of the Exchequer from Mr.

Childers in 1883 up to recent years took the view that in trade relations with their members co-operatives did not make a profit but effected a saving in buying. They were fortified in that view by the decision of the House of Lords, a tribunal of parallel authority with that of the Privy Council, in the case of the New York Life Insurance Company vs. Styles.

'In 1919 I had a voluminous discussion in writing

with Mr. Law, the then solicitor to the Income Tax Division at Ottawa, on the question of the liability of co-operatives for income taxation. Eventually he accepted my argument that the above mentioned savings could not legally be taxable as income or profit.

The commissioner of income tax at the time, a layman, however, overruled his own lawyer on a legal question and declared that the net surplus, after deducting patronage dividends as discounts, was taxable.

'I was a member of a deputation which waited upon the Mackenzie King cabinet in 1929 with a view to getting parliament to express in statute law the legal position as decided by the House of Lords and income tax authorities. As a result there was an amendment to the Income Tax Act in 1930, which, under certain conditions, therein mentioned, declared co-operatives composed of farmers, fishermen and similar occupations were not liable for income tax. So far, however, urban co-operatives have had to pay income tax on the net savings in price effected for their members.'

"Plainly these concerns were being allowed to deduct the patronage dividend from their taxable income.

The Exemption of Mutual Fire and Casualty Insurance Companies

"(77) Section 4 (g) of our present Act affects mutual fire and casualty insurance companies and provides:

'4. The following incomes shall not be liable to taxation hereunder,

(g) The income of mutual corporations not having a capital represented by shares, no part of the income of which enures to the profit of any

member thereof . . .

"(78) Three different interpretations have been put upon this rather cryptic piece of drafting. The first interpretation is that in order to qualify for exemption the company--in addition to having no share capital--must do business at cost, because if any profits are made such profits must of necessity enure to the members who are the owners or proprietors of the company. This view seems to ignore the doctrine of mutual trading, because if the trade is strictly mutual there is no profit--you cannot make a profit by trading with yourself--even if the surplus realized be not distributed but put to reserve; (Jones v. South West Lancashire Coal Owners Association Ltd. 1927, A.C. 827).

"(79) The second interpretation is that given to it by the administrators of the Act. The Departmental view, so far as it is possible to ascertain it, seems to be that the effect of the subsection is to exempt the profits from mutual business and in addition to permit the company to carry on business with non-members. This view recognizes the doctrine of mutuality for the purpose of exempting the business with members, but ignores the doctrine in respect of non-member business. As under the doctrine of mutuality the company and its members are one (i.e., identical) it is difficult indeed, to see how it is possible for such a company to do non-member business without the profit from it enuring to members of the company. And if it does so enure the company loses its exemption by the express words of the subsection. It is not clear whether or not the Department extends to de facto exemption to mutual corporations with capital represented by shares.

"(80) The third interpretation, and the one which, with respect, seems the most reasonable, is the view that Parliament intended that only strictly mutual companies should enjoy exemption from income tax; and that if a mutual company did non-member business that it should forthwith lose its exemption altogether. In other words if the mutual corporation is to qualify for exemption it must restrict its operations to business with its own members. The subsection--in this view--altered the law as laid down in the Styles case; in the Styles case the fact that the company did non-member business did not disqualify the company in respect to exemption of income derived from business with members, that is, strictly mutual business. The subsection was obviously drafted with the Styles case in mind; the insurance company in the Styles case had no share capital.

Conditions Existing when 4 (g) Enacted

"(81) The exemption was originally granted by Chapter 28 of the Statutes of 1917 being the original Income Tax Act of the Federal Parliament. By s. 4 (2) of this statute the tax on corporations and joint stock companies was imposed at a flat rate of 4% upon income in excess of \$3,000. Under this statute companies were not liable to the graduated tax imposed on individuals, which tax the statute describes as super-tax. It is also to be noted that dividends of all corporations were subject to normal tax only in the hands of the company. The exemption has been continued ever since although income tax has increased almost ten-fold and additional taxation in the form of excess profits tax has been imposed. Also the exemption of company dividends from normal tax in the hands of the shareholder was repealed in 1926.

"(82) Only mutual 'corporations' are exempted. Viewed objectively it is impossible to see any real difference between mutual fire and casualty insurance corporations and joint stock corporations carrying on this kind of insurance. In view of the decision of the House of Lords in the Cornish Mutual case above referred to there is no longer any basis for the claim that the former are not carrying on a trade or business.

"(83) The members of this association as individual taxpayers are particularly interested that the bonuses or dividends paid by purely mutual corporations should be taxed in the hands of the recipients in exactly the same way as the dividends of other corporations. The arguments advanced in Part II of this memorandum for the taxation of co-operatives and the co-operative dividend apply with equal force to mutual corporations and their distributions to members. As already stated in the United Kingdom the recognition of the company as a corporate entity for the purpose of income tax meant that the doctrine of mutuality had to go by the board both in the case of the co-operatives and in the case of mutuals as well. The identification of the company with its members is precluded by recognizing the company as a corporate body and the doctrine of mutuality depends on such identification.

Enforcement of Provisions of Statute

"(84) There are grounds for believing that the assessment of co-operative and mutual corporations for income taxation has not been in accordance with the provisions of s. 4 (p) and 4 (g) of The Income War Tax Act and the provisions of the Excess Profits Tax Act. If such is

found to be the case then these concerns should be reassessed for past years on the proper basis. The income tax law should be enforced against all taxpayers alike.

PART IV

THE INCOME WAR TAX ACT AND THE DEFINITION OF INCOME

"(85) Having attempted to deal with the question of exemption of co-operatives and mutual corporations on the principle of mutuality--the only principle which these concerns have been able to invoke to justify their preferred treatment--and having attempted to describe the constitution of Canadian co-operatives and the preference which they and mutual corporations at present enjoy under The Income War Tax Act, it remains to consider whether viewed objectively the activities of such corporations give rise to taxable profits, that is to say, to 'income' within the meaning of The Income War Tax Act. From the point of view of equality of taxation the question to be decided is not whether the surplus arising from the transactions of co-operatives and mutual corporations constitutes 'income' in the abstract but whether--apart, of course, from any existing exemption--such a surplus constitutes income within the meaning of the Act, which is the test applied to all other taxpayers.

Section 3 of The Income War Tax Act provides:

'3. For the purpose of this Act, "income" means the annual net profit or gain....from a trade or commercial or financial or other business or calling, directly or indirectly received by a person....or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or elsewhere; and shall include the interest, divid-

ends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not....'

"Section 2 (h) of the Act provides: '"person" includes any body corporate and politic and any association or other body....'

"(86) According to Murray's New English Dictionary (vol. X. p. 225) 'trading' means 'the action of the verb trade in various senses; especially the carrying on of trade; buying and selling; commerce; trade, traffic.' Again at p. 224 'trader' is defined as 'one whose business is trade or commerce, or who is engaged in trading; a dealer or trafficker.' Again at p. 222, no. 8, 'trade' is described as 'passage or resort for the purpose of commerce; hence the buying and selling or exchange of commodities for profit; commerce, traffic, trading.'

"(87) The report to President Roosevelt of the 'Inquiry on Co-operative Enterprise in Europe 1937' states at page 19:

'....The usual point of operation is the point of exchange; hence co-operatives first engage in buying and selling, and that always remains their most important function. Other activities which they undertake are for the purpose of making their buying or selling more effective....'

"(88) Konstam in speaking of the English decisions on the subject says at p. 69: 'It may be said more broadly that if the adventure or concern is carried on by commercial methods, the motive for which it is carried on is immaterial; and thus a society whose object is the diffusion

of religious literature but which incidentally carries on booksellers' shops is to that extent engaging in trade... Then there is the statement of Lord Blackburn in *Mersey Docks and Harbour Board v. Lucas*, 1883, 8 A.C. 891 at p. 910, where he says:

'...there is nothing in the nature of things, nothing in the words of the Act to say that when an income has been actually earned, when an actual profit upon which the tax is put has been earned and received by any person or corporation, Her Majesty's right to be paid the tax out of it in the least degree depends upon what they are to do with it afterwards, except in certain excepted cases such as charitable trusts and some others.'

"(89) It is plain from the foregoing that the real test is, how the profit originates or is earned, and that whether the profit is taxable or not does not depend in any way upon its ultimate destination or distribution. And these remarks are as applicable to the Canadian Act as to the legislation of the United Kingdom. Applying this to mutual corporations, if their operations constitute a trade, or a commercial or financial business, then the surplus--if any be produced-- constitutes taxable income; and apart from any statutory exemption the fact that it is distributable amongst members only can make no difference. As already stated, in 1926 the House of Lords held in the *Cornish Mutual Assurance* case that a purely mutual insurance company was carrying on a trade; and having regard to the specific words of s. 3 of the Act which have just been quoted, it seems impossible to say that the surplus derived from the business of a fire and casualty mutual corporation is not 'income from a trade or commercial or

financial business or calling,' and that bonuses or other distributions of such surpluses to the policyholder-members are not 'dividends or profits directly or indirectly received from money at interest from stocks or from any other investment.' As pointed out by Lord Blackburn in Last's case the word 'dividend' quite aptly describes any division of profit on whatever basis it may be made; there is no reason to restrict its meaning to a division of profit on the basis of share holding in a joint stock company.

"(90) But whatever the position of the mutual fire and casualty insurance corporations may be there can be no doubt whatever of the position of co-operatives--both marketing and distributive--under the above definition of income. Both marketing and distributive co-operatives buy to resell at a profit and are therefore, traders, or carry on a trade. To hold otherwise is to ignore the plain meaning of words. The fact that in the case of the distributive co-operatives sales are made only to members makes no difference. The principle of mutuality does not apply if the co-operative be a legal entity apart from its members. One might claim with equal reason that a retail store that does business only with its own shareholders is not trading. The position is stated clearly by Mr. G. H. Crichton in a passage from his article in the Law Quarterly Review already given verbatim.

"(91) The constitution and operations of a modern co-operative corporation closely resemble those of an ordinary joint stock company. The joint stock company is a legal entity separate from its members or shareholders; so is the co-operative. The company operates through the agency of its paid officers and employees; the modern

co-operative operates in the same way. The company has capital stock divided into shares; so has the co-operative. The company buys and sells, that is, it carries on a trade; so does the co-operative. The profit of a company is arrived at by striking a balance of income over out-goings including in the latter operating expenses, expenses of management and any trade losses; the co-operative's surplus is arrived at in precisely the same way. In the case of both the profit or surplus is money surplus. In the case of both the profit will depend on the skill, energy, loyalty and diligence of the staff and management. In the case of both organizations the members or shareholders are not liable for debts of the corporation except to the extent of the amounts unpaid on their memberships or shares. In the case of both organizations the individual member or shareholder is not entitled to the surplus or reserve or any part thereof until the directors have declared a dividend in accordance with the constitution of the corporation or co-operative. In fact the only difference between a joint stock company and a co-operative appears to be that the company divides its profits between its shareholders in proportion to the shares owned, whereas a co-operative after paying interest on share capital, if any, distributes its profits in proportion to the volume of the members' purchases or sales as the case may be.

"(92) There is, of course, the claim of the co-operatives that they are entitled to exemption from income tax because they perform a social service or function. This claim cannot be denied; but then every business performs a social service or function. And other things being equal, when a business fails it is usually because it

has failed to perform a public service. Whether co-operative corporations or joint stock companies give greater service to their customers is a matter that can only be determined where conditions of fair competition, including equality of taxation, prevail.

"Taxation of Canadian Joint Stock Companies
and Joint Stock Company Dividends"

When the Act was originally passed in 1917 a Canadian Corporation was taxed on full profit but there was provision in the Act that the shareholder did not pay normal tax on dividends he received. That was altered in 1926 and ever since then the full profits on the corporation have been taxed and the dividends in the hands of the shareholders themselves again. I give the history of the legislation with an extract from Hansard.

"(93) Under the original Income War Tax Act of 1917 Cap. 28, section 3 (1) (d) the shareholder taxpayer did not pay normal tax on corporation dividends which he received. The sub-section provided:

'For the purposes of the normal tax, the income embraced in a personal return shall be credited with the amount received as dividends upon the stock or from the net earnings of any company or other person which is taxable upon its income under this Act.'

"(94) The foregoing provisions of the Act were discussed in the House of Commons in 1917 when the original Act was introduced and the following extract from Hansard explains the practical application of it and the attitude of the Minister of Finance, Sir Thomas White (see Debates, House of Commons, Session, 1917, Vol. IV, p. 4072):

'Mr. German: An incorporated company is to be assessed and then the persons deriving incomes from that incor-

porated company are also to be assessed. There would be certain to be a double assessment, one of the incorporated company and one of the individuals who derive their incomes from the incorporated company.

'Sir Thomas White: My honourable friend will observe when we get a little farther on with the Bill that while the company is assessed on its income its shareholders are also assessed upon their incomes, but there is an allowance made to the shareholder of the normal tax where the normal tax has been paid by the company upon the dividend which he receives. We have adopted there the principle followed in the U.S. legislation. Speaking for myself and from a long experience in connection with taxation, and especially the taxation of incomes, I have always thought it a mistake to assume that there is double taxation when a company is assessed and when its shareholders are also assessed. My honourable friend knows that a corporation in law is different from any or all of its shareholders. It is a legal entity carrying on business in competition with individuals and partnerships. Therefore it has never appealed to me very strongly that a corporation should not be assessed and that its shareholders should not be likewise assessed. But while I believe that the time will come when, in dealing with legislation of this kind, a corporation will be assessed in respect to its income and its individual shareholders will be assessed in respect to their incomes, we have not probably progressed to the point yet where we would give that doctrine the effect which I think it should have. But we defer to the generally prevalent view in connection with income taxation of this kind to the

extent that, while we assess a corporation upon its income to the extent of the normal tax, when we come to assess the shareholders in respect to their incomes, including the dividends which they receive from the corporation so assessed, we make an allowance equal to the normal tax which the corporation has paid upon the dividends derived by the shareholders.'

"(95) By Cap. 55 of the Statutes of 1919 s. 2 (2) (d), subsection 3 (1) (d) of the Act of 1917 was superseded by the following:

'dividends received by or credited to shareholders of a corporation which is liable to taxation under the provisions of this Act shall not be liable to the normal tax in the hands of the shareholders, but shall be liable to the supertax and surtax provisions of this Act or any amendment thereto. The amount of the exemption to the shareholder shall not exceed the net amount of such dividends after the deduction of the interest or carrying charges, if any, in respect of such dividends.'

"(96) In 1926 this provision was repealed and was made applicable to 1925 income. Since 1926, therefore, the profits of Canadian joint stock companies have been taxed and the dividends which they pay have been again taxed in the hands of the shareholder.

"(97) Sir Thomas White's remarks on the competitive aspect of the tax as between different kinds of business organizations is interesting in view of the position to-day. His view that corporations should be taxed as separate entities as a matter of fair competition is hard to understand when he does not suggest imposing a similar tax on other kinds of business organizations, such as

partnerships or businesses owned by a sole proprietor. Today, both here and in the United States, the objective is rather to remove the double tax on corporation profits distributed as dividends so as to place them on an equality with other business organizations. It should be mentioned that in the United States also the exemption of corporation dividends in the hands of the recipient was repealed before the war.

"(98) Because there is no material difference between the constitution and operation of a joint stock company on the one hand and co-operative and mutual corporations on the other, the exemption of the latter from Federal income taxation--either as authorized by Parliament or de facto--discriminates against the Canadian joint stock company and imposes additional burdens of taxation upon it and all other taxpayers; and subjects joint stock companies and other forms of business enterprise to unfair competition, the severity of which may be accurately gauged by reference to the high rates of tax now in force. And high rates are expected to continue for many years to come. It places co-operative and mutual corporations in the invidious position of being--to use the words of a co-operator--'protected by the charity of the state.' The exemption referred to transgresses the principle of equality of taxation--a principle which as already stated is coeval with the rise of Parliament to a supreme position in the constitution. It is, perhaps, not too much to say that the necessity of controlling taxation and fiscal policy in the interest of all, rather than in the interest of a few, was what impelled Parliament to assert its supremacy in the first place.

"(99) Mr. Roy Blough, of the United States Treasury

Department, said recently in a paper entitled 'Economic Research and Tax Policy' published in the American Economic Review (Vol. 34, Supplement June, 1944, p. 6):

' . . . There is first of all the tax justice which is achieved by the like treatment of likes. This is essentially the avoidance of arbitrariness which was previously mentioned. If John Brown and John Smith both are in the same economic situation, tax justice requires that they be treated alike. If they are in exactly the same economic situation, their failure to be treated alike will be due to lack of uniformity in tax administration. The inequities of assessment of real estate are well known. But some of the worst inequities occur where the economic situation is in general alike for different people, but where some one factor is different. This factor may not be important in determining the amount of taxes which people ought to pay, but it may in fact be important in determining the amount of taxes they actually do pay. . . Tax equity consists in recognizing these inconsequential differences for what they really are and adjusting taxes so that they fall with equal weight on people with equal ability to pay taxes.'

I do not think I need to read the rest of it.

THE CHAIRMAN: Perhaps light should be thrown on the manner in which the association represented by Counsel supports the brief. We have had that from almost every organization that has appeared before us. Perhaps Mr. Adamson might be sworn and asked some questions on it.

HERBERT ADAMSON

Secretary,
Income Tax Payers Association,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. You state that your association has 6,300 members?

A. Yes.

Q. Would it be possible for you to file a list of them? A. Yes. There is a list, but it is not up to date. Membership is coming in every day.

Q. Will you tell us generally how your association was formed? A. It was formed last April and we canvassed for members by circular letter through the mail.

Q. Have you a sample of the letter? A. Yes; there is the first.

Q. Was there a series of them? A. Yes; there is the second. That is all I have. There was one earlier but I haven't got a copy of it. It was in the same terms as the multigraphed letter you have there.

Q. Who are the governing officials, the executive committee? A. Mr. Thorvaldson is President, I am Secretary, and Mr. Macleod of the firm of Swift, MacLeod and Deacon, and Mr. Deacon are also on the executive.

Q. How was the executive appointed? A. Mr. Morley Smith of Toronto is Vice-President.

Q. How are the officers elected? A. They are provisional directors. They have not been elected. There has not been a general meeting.

Q. How did the executive become constituted as provisional directors? A. They formed the association.

Q. How many are there? A. Five.

Q. Name them, please. A. There is Mr. Thorvaldson, who is President, then Mr. Morley Smith.

Q. Who is he? A. He is a practising solicitor of Toronto. Then there is Mr. Macleod, who is a solicitor in Winnipeg, of the firm of Swift, Macleod and Deacon, and Mr. Deacon.

Q. Who is he? A. A partner of Mr. Macleod's.

Q. And these five constitute the provisional directors?
A. Yes.

Q. And the executive committee? A. Yes.

Q. When it was time to prepare this brief, which you have read in part, what steps were taken to ascertain the wishes of the association? A. No steps were taken to get the wishes of the members of the association except in terms of those letters. They were canvassed on the basis that we were opposed to the exemption of co-operatives and government owned business institutions and the mutual corporations. It says so plainly in the letter.

Q. Which one? A. Both of them.

Q. Have you extra copies? A. Yes.

Q. There is no date on that first one. A. That was sent out immediately after the appointment of the Royal Commission we refer to.

Q. I understood you to say there was one sent out in April? A. Yes.

Q. You have not a copy? A. No. It is in the same terms as the other one sent out in June.

Q. On June 14, 1944 you sent out a circular letter substantially the same as the other? A. Yes.

Q. Was that sent out after you knew there would be this investigation? A. Not on June 14.

Q. That was merely a circular letter for the purpose of acquiring members? A. Yes. We say: "The exemption from income tax of co-operatives, of mutual insurance

companies and other mutual corporations, and of municipal and government owned business undertakings are examples of injustices in the existing income tax law, the redress of which would relieve all taxpayers, both individual and corporate, of unfair burdens and unfair competition."

Q. In the second last paragraph of the circular of June 14 you say: "It is proposed to organize the Income Tax Payers Association on a dominion-wide scale."

A. Yes.

Q. At the time these circulars were sent out how many members did you have? A. At the time the first one went out?

Q. I am talking about the one in June. A. I could not say offhand; it would be less than 500 members.

Q. Your main object in sending that letter was to place your proposals before the prospective members?

A. Yes.

Q. How did you select your mailing list? A. We were supplied with lists.

Q. What kind? What cross-section of the country does your association represent? A. The first list sent out comprised the business executives across Canada and the officers of corporations. I forget how many there were on the list. There were probably 6,000.

Q. Six thousand business executives? A. Yes. In the same way we canvassed civil servants.

Q. How was the canvassing done--by letter?

A. By circular letter; that is the way the whole membership has been got.

Q. How did you get the list? A. I cannot enumerate them by heart.

Q. But did you take the telephone directory?

A. Yes, I think we did.

Q. The regular city directory? A. Yes. I did not do it myself. I instructed the people who do that business.

Q. What type of people? A. Wiggins, for instance.

Q. Who is he? A. They supply mailing lists.

Q. They are professionals? A. That is their business.

Q. If you went and asked them to supply a list of people interested in buying any commodity they would give you a list? A. Yes.

Q. What general instructions did you give? A. We started out with a directory issued by the Maclean Publishing Company of all business executives and officers in the Dominion of Canada. That was the first we sent out, and it included every member of every legislative assembly in the Dominion of Canada and all members of the House of Commons. That was the first.

Q. You asked the people to supply you with names? A. No. We sent out this letter addressed to them inviting them to join the association.

Q. If you sent a letter to every member of the House of Commons and to all the members of all the provincial legislatures you would not have more than four or five hundred. Where did you get the rest? A. That is not the only list we used. We had the services of Mr. Morley Smith. He sent out a number. He had a mailing list. He has all the details.

Q. In response to this general letter, about how many joined up, approximately? A. I could not really tell. Membership is coming in every day. The bulk of the membership was secured after this Royal Commission was appointed and as a result of that second letter.

Q. About when did that start? A. This commission was

appointed in November, I believe.

Q. In one of these circulars you say: "To all income tax payers: The Income Tax Payers Association has been formed with the main object of securing a more equitable distribution of the income tax burden. Some of the other objects of the association are: (1) To investigate and study the incidence of income tax, both generally and as it may affect any particular trade, industry, business or class of individuals; (2) To seek and obtain the simplification of income tax laws; (3) To inform members of the association from time to time of the provisions of any income tax legislation and of any new developments in income tax law; (4) To afford income tax payers an opportunity of acting unitedly in making representations to the proper authorities to secure relief from inequalities in income tax law or administration; and to give publicity to such inequalities with a view to obtaining the redress thereof. We, therefore, intend to present a memorandum to the Royal Commission announced by the government to consider the tax treatment of cooperatives in Canada, and we wish to have the largest possible membership to give weight to our presentation to the Commission."

THE CHAIRMAN: Was this memorandum submitted to any considerable number of the membership?

THE WITNESS: No. There were just four of us present when we formed the association and signed the articles and started to get the membership.

BY MR. PARKER:

Q. Is there a formal application for membership?

A. It is at the bottom of the letter.

Q. You speak of articles of association. Have you articles of association? A. Yes, but I haven't got a copy here.

Q. What do you mean by articles of association?

A. The memorandum of association, I should say.

Q. Do you propose to become incorporated? A. No.

Q. What do you mean by memorandum of association?

A. It forms the basis of the association. We are not an incorporated body and do not intend to be.

Q. You, I take it, with your association prepared this document? A. Yes.

Q. Was it submitted to the executive? A. Yes. Here is a certified copy of the resolution.

Q. Passed by the executive? A. Yes. At the same meeting we authorized a submission to the other commission on annuities.

Q. Out of a total membership of 6,000 odd, how many have seen this brief and approved of it? A. Not very many.

MR. THORVALDSON: It should be said that the Income Tax Payers Association, in its organization, followed very much along the line of the Income Tax Payers Association of Great Britain, which I think did some valuable work in connection with tax problems and which, as you know, appeared before the 1933 inquiry. I do not recall whether they appeared before the 1919 Commission but they made a submission in Great Britain and we organized very much along similar lines. There is a similar body in the United States.

BY MR. SCARTH:

Q. Is it financed purely on membership fees? A. Yes.

Q. That is to cover the cost of operation? A. I don't think that comes within the scope of this inquiry. We formed the association as we had a right to do. We have the right to free association in this country and I do not think we are under any obligation to explain how

or why.

THE CHAIRMAN: I do not think we wish to inquire further into that.

The Commission adjourned until 2.15 p.m.

The Commission resumed at 2.15 p.m.

MR. THORVALDSON: Mr. Chairman and gentlemen, although section 2 is somewhat lengthy, I will try to summarize it as far as I can by simply reviewing those parts in which perhaps there is repetition. I begin at page 43:

"SECTION 2

Part I

Other Aspects of Tax Exemption

"(101) Together with the objectives already referred to in this submission the Income Tax Payers Association has other more broad and general objectives. We believe in the profit or free enterprise system under which Canada has developed into a great and powerful nation with at least the second highest if not the highest, standard of living in the world. We believe that the vast majority of Canadians desire to retain this profit or competitive or free enterprise economy which has been developed in Canada and that this majority are opposed to the creation of conditions which would tend towards monopoly control of the business and industry of Canada, be it state, co-operative, mutual or any other type.

"(102) We believe that this system can be destroyed just as effectively by back door methods of tax inequality and tax discrimination against certain types of enterprise as by a direct decision of the people at the polls. Hence the preservation of our profit system requires the

elimination of tax inequality wherever such may appear. We therefore urge complete equality of taxation treatment in all respects as between individually owned, partnership, corporate, co-operative, mutual and government businesses.

"(103) We recognize fully the right and privilege of co-operative and mutual enterprises to exist and prosper as part of a free enterprise economy wherever and to whatever extent they prove themselves to be equal or superior to other forms of enterprise. Its only quarrel in so far as co-operatives and mutuals are concerned, is in respect of preferential treatment accorded to them by the state either in respect of taxation or in any other matters having a bearing on competitive positions.

"(104) This association believes also that there should be and perhaps is considerable unanimity of view between private business and co-operative and mutual business (which are in truth forms of private business) in respect of the invasion of governmental business into the field of all these types of private business. All know that government, if it has a mind to do so, can sweep aside all competition in any business field into which it decides to enter. We believe that none of these types of business favour such an extension of governmental business as would amount to virtual state capitalism and that all will exert all the influence at their command to prevent that.

"(105) The purpose of these preliminary remarks is to emphasize that the program of the Income Tax Payers Association is broad and that it contains numerous points on which there can be agreement between private and co-operative and mutual enterprise.

"(106) We deem it also to be a fact that co-operative and mutual business is not opposed to the broad principle of tax equality as between various types of business, but rather that disagreement arises as to the interpretation and application of that principle. Therefore most of this section will be devoted to a consideration of that issue.

PART II

Historical Basis of Tax Exemption

"(107) Before proceeding further, however, we desire to make brief reference to the historical basis of the exemption from income tax of co-operatives in the United Kingdom (from which land so many of our laws have sprung). We have already dealt with this matter from the point of view of the legal doctrine in respect of mutual trading.

"(108) Co-operative societies there were foster-children of the Friendly Societies. The Friendly Societies which first secured legal recognition in an Act of 1793 (33 Geo. III cap. 54) had for their main purpose the raising by voluntary subscription of the members thereof funds for the mutual relief and maintenance of the members in sickness, old age and infirmity and of promoting the happiness of individuals and at the same time diminishing the public burdens.

"(109) The State in those early days, being most desirous of diminishing the public burdens in this way, adopted various means of encouraging the Societies, one of them being the granting of exemption, first from stamp duties upon their legal documents, freedom from court fees and finally freedom from various other taxes including the income tax under certain schedules of the Income Tax Acts. Then in 1852 with the passage of the first Industrial and

Provident Society Act the former tax exemptions granted to societies registered under the Friendly Societies Acts were extended to those registered under the Industrial and Provident Societies Acts, and co-operative societies which all now became registered under the latter Acts, continued being exempt from certain taxes including taxes on trading profits. The reason for this original tax exemption was not, however, any theory of mutuality or mutual trading, but wholly because the early co-operatives were merely associations of working men and poor persons who were being encouraged by legislation to help one another with a view to diminishing public burdens upon their fellow citizens and the State. In other words they were considered in the light of philanthropic and charitable bodies and accordingly received similar treatment under the tax laws as other such organizations."

The doctrine of mutuality did not exist in the early days in respect of co-operatives, and in fact it was never applied until 1889 at the time of the Styles case. In connection with the Styles case, I would refer you to the fact that out of eleven judges who actually heard it, only four upheld the points which they did in respect of the doctrine of mutuality, while the other seven were opposed.

"(110) When, therefore, as now in Canada, co-operative organizations, some of which individually have assets of many millions of dollars, and collectively do a volume of business between 350 and 400 million dollars a year, such a situation is indeed a far cry from the organization formed by the original twenty-eight flannel weavers who founded the Equitable Pioneers Society in Toad Lane, Rochdale, Lancashire, in 1844. Tax exemption, as

provident societies, can not now be claimed by the huge business institutions which some of our Canadian co-operatives are today."

In the next part the purpose is to show that what began as a slight subsidy in favour of co-operatives, and a not intolerable discrimination against competing business, has now become, because of the increasing tax rates, a back-breaking burden upon privately owned partnerships and corporate businesses in Canada. Then I review the corporate tax rate of 1930 of 10 per cent:

"PART III

Comparison of Income Tax Rates in Canada

"(111) As a further preliminary to this part we desire now to consider and contrast income tax rates and income tax collections in Canada in the year 1930, when section 4 (p) was passed, in 1939, the first pre-war year and 1944. It will, we think, become apparent from these comparisons that although the discrimination against private business created in 1930 by the enactment of section 4 (p) was not very considerable, yet neither time nor rates of taxation have stood still since that year. What began as a slight subsidy in favour of co-operatives and a not intolerable discrimination against competing business, has now become, because of increasing tax rates and lax departmental administration, a back-breaking burden for privately owned, partnership and corporate business in Canada.

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	1930	1939	1943
"CORPORATION TAX RATE:	10%	15% (where returns consolidated rate was 17%). (Increased to 18% and 20% res- pectively by war budget of Sep- tember 12, 1939)	40% and 80% of E.P. Tax (Under both Income and Excess Profits tax acts, except in the case of Companies having net incomes under \$5000, when rate is 30%)
TOTAL INCOME TAX			
COLLECTIONS:	\$71,048,022	\$134,446,566	\$1,620,475,000 (estimated)

(In each case for fiscal year ending March 31, in
succeeding year.)

"The total estimated income tax revenue for the year ending
March 31, 1944, of \$1,620,475,000, is taken from page 4 of
appendix to The Budget, 1944-45, and is made up as follows
(see Hansard of June 26, 1944).

INCOME TAX:

Individuals (graduated)	\$813,047,000
National Defence Tax	388,000
Corporations	311,379,000
Dividends, interest, etc..	26,943,000
Excess profits tax	468,718,000

Together, the corporation tax and excess profits tax amount
to \$780,197,000.

	1930	1939	1943
Total revenue from all taxes (in each case for fiscal period ending \$ 296,276,396 \$ 467,684,964 \$ 2,591,812,000 March 31, in succeeding year)			
Percentage of income tax revenue to all revenue	24%	29%	62%

"(112) In brief, it will be noted that as between the fis-
cal years 1930-31 and 1943-44 revenue from income taxation

has multiplied approximately twenty-three times and even as between the years 1939-40 and 1943-44, approximately twelve times.

"(113) We make these comparisons merely to indicate and emphasize the tremendous changes that have only recently occurred in Canada's taxation structure, the main change consisting of the increased income tax burden. It is the impact of this shifting of our national tax structure which makes the problem of income tax exemption of co-operatives, mutuals (as well as in fact any other enterprises that are income tax exempt), of paramount importance.

"And the problem has not acquired this importance only in regard to the revenue needs of the state or as regards competing businesses, but also in respect to the tax burden of other tax payers generally. It should be recognized that since the revenue needs of the state must be filled, hence tax exemption of any kind entails a shifting of a tax burden to other shoulders. Frequently also these other shoulders are not as well able to bear the shifted tax burden as were the shoulders from whom they were shifted."

In Part IV I do not think I need read anything except the following from paragraph 114.

"It is submitted that there will be ample evidence produced to show that the great increase in this volume of trading that is occurring in Canada from year to year results largely from the appeal and attraction afforded by a tax exempt method of doing business in an otherwise heavily taxed economy. Evidence, we believe, will also be produced that one of the main arguments used and widely circulated by the promoters of co-operatives, is

the fact of the present tax exemption enjoyed by this type of business, and its resulting advantage over other types of business organization."

I set out at the bottom of the page figures which you have seen so often, and which are furnished by the government.

MR. PARKER: Figures of total business?

MR. THORVALDSON: Those are total figures of co-operatives as given by the Agricultural Economics Branch. I come now to paragraph 117:

"(117) The department's reports also indicate that in 1943, marketing co-operatives handled about 24% of the main farm products entering commercial trade channels. Clearly therefore, nearly one-fourth of the trading involved in the marketing of Canada's agricultural products in that year was exempt from the income tax while the trading involved in the other three-fourths was subject to income taxation.

"(118) The figures as to the volume of co-operative trading in 1944 are not yet available but we believe the total to have been considerably in excess of the three hundred and fifty odd millions done in 1943.

"(119) Another type of co-operative, credit unions, now number nearly 1800 and in 1943 loaned \$16,900,000. Mutual fire and casualty insurance companies which are also exempt from income taxation did an annual volume of business in 1942 of a premium income of \$12,616,990 which yielded a profit of \$2,298,662.

"(120) This large and increasing volume of business or trading is not making its proper contribution to the revenues of this country. This trading receives the same benefits from organized society as all other trading.

There is surely no difference in that regard. This tax exempt trading, furthermore, is every bit as dependent upon the military victory of Canada in the war as any other business and should therefore make an equivalent contribution to the nation's war effort as trading carried on by tax paying enterprise.

"(121) If this tax exempt business continues to increase, accompanied by a corresponding decrease in tax paying enterprise, it is fair to ask, who will then pay the taxes now being paid by the presently tax paying business? We submit in this regard that there is evidence to indicate a continual and rapid displacement of tax paying trading by non-tax paying trading and a consequent narrowing of the base from which today's corporation income and excess profits taxes are secured.

"(122) Based on a rough calculation of the income and excess profits taxes paid by tax paying enterprise we estimate the loss of revenue sustained by the federal government for the year 1943 by virtue of the income tax exemption of co-operatives of various kinds and mutual fire and casualty insurance companies to have been in the neighborhood of \$20,000,000."

This is a part I would like to deal with rather fully.

PART V

Methods of Eliminating the Present Inequality

"(123) The foregoing we believe to be elemental facts about which there can be little controversy. We are convinced they represent gross taxation inequality and discrimination. There are two ways in which this inequality and discrimination can be done away with, namely:

' (a) By eliminating corporation income and excess profits taxes, thus putting the federal government in the position of relying for its revenues to a large extent on taxes collected from individuals in the personal income tax and sales taxes, excise taxes, customs duties and other taxes.'

THE CHAIRMAN: That, of course, is outside the scope of our inquiry.

MR. THORVALDSON: Yes, clearly. But the fact is that in the last two or three months, and particularly since the appointment of this Commission, the main argument of certain interests in this matter has been that the way to produce equality is not by taxing the co-operatives but by exempting the corporations. For that reason we feel it is of the greatest importance to meet that argument, and we must meet it before this Commission despite the fact that the Commission has no authority in the matter. I would be glad, therefore, Mr. Chairman, if you would allow me to proceed on that basis.

' (b) By subjecting the earnings of co-operative and mutual businesses, including earnings returned or credited to patrons in one form or another, to the same taxation as applies to other corporate business. (We would like to add here--and by evolving a system of taxation of governmental businesses that will produce substantial equality with income tax paying enterprise).'

"(124) Leaders of the co-operative movement in Canada no doubt recognizing the present inequality and discrimination, have suggested that they would be willing to lend their support to the elimination or drastic lowering of corporation income taxes. We have not heard however

that they have made any suggestion as to the replacement of the loss of revenue to the state entailed by such elimination or reduction. Much thought is being given to this proposal and eventually we may evolve a new system of taxation which will serve as an incentive rather than as a deterrent to business expansion. This association will certainly lend its support to a complete overhauling of the system of federal taxation along lines which would appear to improve rather than lower our standard of living.

"(125) Meanwhile, we must be realistic. The present corporation income tax and excess profits tax yielded for the fiscal year ending March 31, 1944, \$780,197,000 (estimated). That was approximately 30% of all federal tax revenues for that year. Another \$813,047,000 or a little more than 31% of tax revenues came from the personal income tax. The balance comes mainly from sales and excise taxes and customs duties. But the significant fact is that 30% of the federal government's tax revenue comes from the corporation income tax and excess profits tax.

"(126) Any reduction in taxation or elimination of present taxes while the war continues is hardly a matter for practical discussion. When the war ends, leaving the country with an enormous debt, with perhaps a somewhat reduced national income, but also an abundance of post-war schemes including additional social services, assistance to agriculture in the way of floor prices and subsidies, as well as the major task of providing adequate pensions and rehabilitating our soldiers, as they return from overseas, the revenue needs of the federal treasury will be nearly, if not as great, as during

the war years. If the federal budget is to be balanced, and it must be balanced after the war if we are to escape financial chaos, the government will have to levy the maximum taxes that the nation can support for a considerable number of years. Further, without any reduction in tax rates it is reasonable to expect a substantial falling off in revenue accompanying a return to more normal times.

"(127) We believe, too, that we should be realistic about another factor in our tax situation. That is in respect of the large numbers of low income earners brought under the personal income tax since 1940, and who have at great personal sacrifice been contributing to this nation's financial sinews of war. The first mass demand at the close of the war will be to increase the tax exemption on low incomes and thereby take out of income tax paying brackets large numbers of present tax payers of low income. Furthermore it is obvious, we believe, that income tax rates on medium and higher incomes are now at their very maximum and should be reduced rather than increased.

"(128) Under these circumstances it is hard to see how any national administration could even attempt to shift the tax now paid by corporations to individuals.

"(129) If, for instance, we would consider increasing the sales tax for the purpose of supplanting the present revenue from the corporation and excess profits tax, then, based on present revenues from the sales tax, this tax would have to be more than tripled.

"(130) We say, therefore, that we must be realistic in these things. It is inconceivable that the public would accept a sales tax much above the present rate and certainly very few persons would argue that a sales tax more than three times higher than our present one would be in

the public interest.

"(131) Consequently from our viewpoint, the only feasible alternative left which can bring about equality in the taxation of private, co-operative mutual and let us add, governmental businesses is the second one--that of applying the corporation income tax to co-operative and mutual businesses and of establishing a corresponding system of taxation for governmental business enterprise which competes with other forms of business.

"(132) In considering the application of corporation taxes to co-operative business, it is our considered view that all earnings of co-operatives, including profits returned or credited to patrons, are profits properly subject to income taxation. We recognize that this is a basic point of difference between co-operative and other business groups. However it is clear to us firstly that all such earnings are properly described as profits and therefore properly subject to income tax before distribution and secondly, that unless all earnings are so treated, equality of taxation could not be accomplished and the major part of the present discrimination would still remain.

"(133) Apart entirely from the result of logical reasoning in respect of the nature of the so-called patronage dividend, it would seem clear that unless the amount of this were taxed as profits in the hands of the co-operative, such company would have it entirely within its own power to wholly deplete its surplus by the payment of such dividends and thereby escape the payment of any income taxes whatsoever. A situation of that kind would not establish tax equality.

"(134) We are convinced therefore that it would serve

no useful purpose for private and co-operative business to work together for the elimination, either in the near or reasonably distant future of the corporation income tax and in the interim to acquiesce in a continuation of the existing discrimination.

"(135) When, however, equality has been established in the taxation of private, co-operative, mutual (and we would like to add again, governmental) businesses there is no reason why in the post-war period all forms of business should not work together for proper reductions and other needed improvements in all forms of taxes affecting business."

I come now to Part VI which I submit will be one of the crucial issues, one of the main issues for your Commission to decide.

"PART VI

The Patronage Dividend

"(136) In respect to the basic issue whether earnings of a co-operative, and particularly that part known as the patronage dividend, are profits in the hands of the co-operative and properly subject to taxation as corporate income, we have already dealt with this in its historical and legal aspect. We would like to deal with it briefly here as the practical problem which it is.

"(137) Business profits are the excess or surplus of the earnings of a business over the cost of operation of a business. In the case of corporations and co-operatives (and most co-operatives are corporations), profits come from identical activities of doing business in pooled, joint ventures. Corporations and co-operatives are alike in that they are devices for the pooling of the

capital of many individuals for the operation of a business. They are alike in that there is no personal liability on the part of individual owners for the liabilities of the business. Profits are earned in the same way--through the operation of physical facilities and through buying, selling, processing, manufacturing, servicing, or whatever activities the corporation or co-operative is engaging in. The profits are the property of the owners of the business. In the case of corporations, the investors are the owners--and in the case of most co-operatives, the patrons are the owners. In either case the earnings of the business constitute the profits, which go to the owners of the business, and the existence of the profits is not dependent upon whether the owners are investors or patrons.

"(138) There is a definite distinction between a true refund involved in the performance of a service for an individual customer on a cost basis and profits which result from the overall operation of a business involving many individual transactions. If, in the case of an individual customer, there has been an agreement to perform a service for him, such as the purchasing for him of a tractor on a cost basis, then there presumably might be a true refund of a part of his initial payment in order to reduce the transaction to a cost basis."

I cite the sort of contention on which the co-operatives base their general argument.

"In other words, supposing John Jones hands Bill Smith \$500 to buy for John Jones a tractor on a cost basis -- the cost of which Jones does not know. It is discovered that the cost is only \$400 and accordingly Bill Smith returns to John Jones \$100. This would appear to be a

true refund and no one would suggest that it is profit. Patronage refunds of a co-operative however are not on this individualized cost basis. Instead they represent the net result of the pooling of both profits and losses on many individual transactions, and are profits made possible only by the pooled business operations. A co-operative may have lost money on individual business done with John Jones but, nevertheless, John Jones participates as a business owner in the overall profits earned in the business operations of the co-operative. The business as a whole, through its facilities for pooling many individual transactions in a way that resulted in a way that resulted in earnings, was responsible for earning the profit.

"(139) The basic reason for the existence of corporations or co-operatives is that they provide a means for individuals to join together to do business more efficiently than if they did business individually. If it is true that co-operatives as such make no profits, then their members and patrons have made no gain at all through their efforts and there is no reason for their existence.

"(140) The actual effect of tax freedom for the profits of co-operatives is that as joint patrons and owners of the co-operative a large group of people are avoiding the payment of the same kind of taxes as are paid by the patrons and owners of corporations. This is true, since it is obvious that corporation taxes must come either from patrons or from stockholders, or perhaps both. While any individual may secretly want to escape taxes which his neighbour has to pay, he is in a difficult position to justify such avoidance.

"(141) The difficulty arises from the fact that the co-operatives continually argue their case on a simple individualized basis. We quote the following from an editorial in the official organ of the Manitoba wheat Pool known as the "Manitoba Co-operator" of May 15th, 1944.

There is first an accusation that business men have failed to become informed upon the technique of co-operative societies and the nature of the patronage dividend. And then:

"(142) 'Let us suppose one of these business men were to give his wife \$400 with which to buy a refrigerator and subsequently received from the seller a cheque for \$50 and a note telling him that the price of the refrigerator was \$350 and therefore \$50 was being returned to him, being an overcharge. Would he add the \$50 to income -- would he? Just ask him! He would say: I paid the \$400 out of my total income and that income is not increased if I get \$50 of the \$400 back any more than it would be if I lost the \$50 and some honest soul found it and returned it to me. My financial--and taxable--position is not improved by the return of it; it is simply saved from impairment.'

"(143) In the simple case cited above, of course, there was clearly a saving of \$50 to the buyer of the refrigerator, but also, if the salesman had not returned the \$50 to the buyer he could, we think, properly have had applied to him the designation of 'swindler.' We repeat this argument merely to show its simplicity and also to indicate that from this very simple premise an attempt is made, by a mere change of language--namely, by reference to a 'saving' instead of a 'profit'--to avoid taxes that would otherwise be payable.

"(144) Another example which appears to illustrate the distinction between a pure saving and a profit is the following: (We take this illustration from an article by Mr. D. H. MacGregor which appears in the 'Economic Journal', March 1933). 'Suppose that five men contribute \$100 each for a tour, the expenses of which for them all come to only \$400. Is the \$100 which is returned a profit? If what is implied is mere purse-bearing by one member of the party, who cannot affect the costs of a predetermined journey, the answer would be no--it is merely a saving, or should one say a mere miscalculation.'"

I believe I added those words "or should one say a mere miscalculation."

"But if, by having \$400 in hand, the person in charge is able to risk adventures which turn out fortunately, so that the whole cost is then only \$400, the answer is by no means so clear. In the latter case, the full contribution was necessary to the enterprise and its result.' Perhaps this example at least illustrates the danger of arguing a broad generalization from the premise of a very simple set of circumstances.

"(145) We desire to give one more example to again illustrate what we believe to be the fallacy of the co-operative theory in respect to the patronage refund. Take the case of a co-operative corporation owning several shops or stores - or grain elevators. It is conceivable that some shops might incur losses and others make profits. Let us suppose also that the losses are incurred because of the shops in question selling all their goods below cost. Nevertheless the profits of the others are sufficient to create an over-all profit

and hence the co-operative is enabled to make a patronage refund to all its patrons, including of course, the ones who purchased only from the stores which operated at a loss. Can it be argued in this case that the refund now paid to the patrons who have consistently been buying their goods below cost is a true refund of an excess charge previously made to such patrons?

"(146) Similarly, take the case of patrons all dealing with one shop. Some buy only articles on which there never is a profit - perhaps always a loss. Such situations prevail in every business. When these patrons receive a patronage refund, surely no one would argue that in their case this refund is the return of an overcharge."

I would refer the Commission to the evidence in the Northern Alberta Dairy Pool. There was evidence that some creameries make a loss consistently whereas others make a profit and in the case of the creameries that always incur a loss there is an overcharge.

"(147) Again we submit that the patronage dividend arises in the same way and from the same source as other dividends, namely as a result of an averaging and pooling of profits and even losses in joint ventures.

"PART VII"

I will review this very briefly. I will read the first paragraph of Part VII and then go the bottom of page 52:

"Operations of Western Grain Pools"

(148) There is also a clear fallacy in attempting to argue that because the old form of wheat pool in western Canada was held by the Courts to be exempt from

income tax, (Minister of National Revenue v. The Saskatchewan Co-Operative Wheat Producers, Ltd. supra) then the present western grain pools or other co-operatively organized business should for similar reasons be exempt.

PART VIII

Co-operatives and Business at Cost

"(153) We desire now to examine briefly another phase of the problem of placing an income tax on co-operatives which would have the effect of establishing substantial equality in taxation treatment as between co-operatives and other enterprise. Many co-operative leaders say: 'if you attempt to assess us with income tax we will more carefully inventory our business so as to enable us to do our trading at cost, and consequently there will be no profits to tax.' There may be truth in this claim and there can be no legitimate objection to such a course from competing business."

The Alberta cattle pools seems to be carried on entirely at cost, and in cases of that kind there is no problem at all. They seem to me to come within the decision in the Wheat Board case.

"To do business without a profit is the privilege of both co-operative as well as of any other type of business. We submit however, that this claim should be no deterrent to the assessment of co-operatives or mutuals to income tax where a profit is earned. It should be observed that as far as competing business is concerned one of the greatest abuses of the tax exemption granted to co-operatives and mutuals has been their freedom to build up huge surpluses which have escaped taxation. We have no doubt, and therefore we do not

desire to repeat it here, that evidence will be furnished as to this situation in all parts of Canada."

I think the evidence is overwhelming as to the truth of that statement.

"Then these surpluses have been and are used in various ways, all to the great detriment of competing business, namely: (1) to take business away from its private competitors through price advantages; (2) by pyramiding earnings as capital and building up reserves for future expansion; (3) to buy out its private competitor's businesses.

"(154) These results have followed logically as a result of the great advantage held by tax exempt co-operatives and mutuals over other types of enterprise. That is, tax free competitors of private business, by getting themselves on the favoured side of tax discrimination, have turned to their own uses the power to destroy through taxation.

"(155) We make this one further observation in respect to trading at cost whether by co-operative or any other kind of enterprise. It seems obvious that with a continuation of high income tax rates on corporations more and more consideration will be given to the question of legitimately avoiding liability for such taxes."

That can be done by ordinary corporations in their capital structure such as financing by bonds and so on.

"The commission is no doubt well aware of the numerous and varied expedients which can legally be resorted to for the purpose of avoiding a taxable net income and hence the avoidance of any contribution to the state through the application of present income tax laws. It seems inequitable, however, that in the case

of two competing businesses which may have identical abilities and opportunities to earn net income, one of them may deliberately resort to expedients designed to prevent it from making a profit and thereby avoid its just obligations to the state.

"(156) We recognize fully the difficulty involved in making an income tax statute applicable to such a business."

The Commission will no doubt have in mind the various businesses that have been investigated which are in this situation.

"Nevertheless we deem it advisable that consideration be given to such amendment of sections 23 and 32A of the Income War Tax Act as may tend to solve this problem."

Section 23 refers to inter-company purchases and sales; that is, purchases and sales between companies with a view to artificially reducing profits. Section 32A has reference to the Treasury Board reviewing transactions that have the appearance of being entered into for the purpose of avoiding taxation. Those features are in the Income War Tax Act now and no great trouble would be caused by extending them somewhat to meet a problem that has become so apparent. I will skip some of the next part:

"PART IX

Tax Exemption and Economic Controls

"(157) Many of Canada's economic controls and to a large extent our anti-inflation policy are exercised through the operation of the Income War Tax Act and the Excess Profits Tax Act. Because of the non-enforcement of these Acts in respect of co-operatives none of the controls exercised through them have been made effective as to such organizations. The mischief resulting from

this omission is two-fold. Firstly there is a reduction in the power of the state to effect the purposes for which the controls were evolved. Secondly in so far as these economic controls are restrictive of the rights, freedoms and privileges of ordinary business, severe discrimination results against business which is subject to the income tax laws and conversely great advantage, from a competitive standpoint, is conferred on all income tax exempt types of business

"(158) To mention only a few of these controls, there are the Wages and Salaries orders, infringement of which, in the case of taxed business, carries the penalty of disallowance as an expense for income tax purposes of any excess amounts paid in wages or salaries. There are also the limitations on advertising expenditures, contributions, obsolescence reserves, allocations to reserves for pension funds, expansion expenditures as well as the close scrutiny to which all ordinary business accounts are subjected for income tax purposes.

"(171) We quote also Mr. Charles E. Stuart at page 118:"

Part X has been placed here mainly for the reason that we have summarized some of the very pertinent statements of the American inquiry. I will not read it except to say that in the various countries referred to in this part there is equality of taxation as between co-operatives and mutuals and other corporations. In France it is nearly equal. That was the pre-war situation. In Denmark there is also very near equality between co-operatives and others. That is true of Norway, and in Czechoslovakia there is some discrimination though not nearly as much as there is in Canada. In Finland there is partial equality. I would like to read carefully

paragraph 171 because it is completely applicable to the Canadian situation. We quote Mr. Charles E. Stuart in the report on the American inquiry.

"It has been pointed out frequently in this memorandum that co-operative leaders in Europe are almost unanimously opposed to special favor on the part of the government. They point out that a co-operative must compete with other forms of enterprise and that special favors weaken its ability to compete. Furthermore, should co-operative enterprise be made successful by tax exemption and direct financial aid, it would be impossible to long continue this assistance."

I think that is the situation in Canada, and it is impossible to long continue the present exemption.

"Eventually the co-operative enterprise would have to be taxed to the full extent since revenues have to be supplied from the business of the country as a whole, and if such exemptions are necessary for their existence they would promptly disappear when their special privileges ceased. In the meantime, immeasurable destruction would have been done to private enterprise, with a general destruction of confidence that might well bring us to the doorstep of another depression."

"(172) 'In practice, European co-operatives generally pay property, income and other taxes just like private business. Although in some countries the co-operatives insist that their income is different from that of private business and should not be taxed, governments have generally decided that undistributed income of co-operatives is a proper tax source for government revenue. Special consider-

ation, however, is usually given with regard to that portion of the income which is distributed back to the members as patronage refunds. Since, in fact, it does not actually add new income but merely restores a portion of the members' original income, governments have generally held that such a patronage refund should not be taxed. This theory, however, is applied not only in the case of consumer co-operatives but also in cases of private retail trade paying rebates or patronage refunds to their customers. The remitting of such a tax in effect increases the purchasing power of low income groups (but does not actually increase their income) since this policy results in larger patronage refunds. In the case of higher income groups the original income is already taxed and a tax on patronage refunds would virtually tax part of the income twice. In the case of production enterprises owned by consumers' co-operatives, the methods of taxation applicable to private industry are generally adhered to.'

"(173) Mr. Robin Hood remarks at page 124:

'Any group of people who believe they can purchase their requirements more advantageously through co-operatives than through private enterprise should be fairly accorded their rightful opportunity to make the effort. But European co-operative leaders themselves uniformly advise us against Government subsidies and high-pressure Government promotion.'

"(174) Mr. Clifford V. Gregory, speaking of the effect of co-operatives on private business says at page 129:

'All this presupposes that consumer co-operatives will be given no more special privileges than those

enjoyed by private corporations. It presupposes too, that consumer cooperation will be a business and social and not a political movement, and that it will avoid attempting to create a co-operative monopoly.'"

After the evidence that you have heard in the last few days, what Mr. Gregory says is very appropriate to this country.

"(175) And at page 130:

' They should avoid the lure of a co-operative monopoly. There seems to be no reason to believe that the stimulus of competition is needed any less by co-operative than by private business, or that a co-operative monopoly would not stop progress just as surely as private monopoly does.'

"(176) We have cited so extensively from the report of this Commission of Inquiry because it is clear that even with the comparatively low taxation existing in pre-war days and when tax differentials were therefore not as onerous as they now are because of heavier taxation, yet most European governments clearly attempted to effect at least near tax equality as between co-operative and other enterprise. From this indicated attitude of fairness even in those days it is only reasonable to conclude that a similar attitude would have prevailed as tax rates increased, provided that these continental European governments had remained free.

"(177) The lesson to be drawn from the European experience is that democracy has, in all the ages, been a movement to terminate unfair privilege, destroy monopoly, eradicate discrimination either in law or taxation, and to secure equality in rights for the individual.

"(178) In respect to the method of taxation of Co-operative Societies in the United Kingdom resulting from changes in the Income tax law following the report of the Chancellor of the Exchequer's committee in 1933 it is to be observed that the patronage dividend--the 'divi'--is not taxed in the hands of the Societies. We do not agree with the reasoning of the members of the committee, namely that the 'divi' is a form of deferred trade discount and that as such it should be exempt from income tax as an ordinary trading expense. However, if the 'divi' had been taxed in Great Britain, the Co-operatives would have been in a more unfavourable tax position than ordinary corporations, in the case of which dividends paid by them are taxed only once, namely in the hands of shareholders."

That has reference to the fact that in England the "divi" is exempt and it is exempt because the dividend paid by corporations is taxed only once. The tax is really paid by the individual and not by the company. Coming to paragraph 179, a large factor in the European situation is the question, in respect of the taxation of corporations, as to whether there is single or double taxation. We have not a great deal of information on that point, but perhaps the Commission will acquire that information later.

"(179) We believe the position with respect to the patronage dividend in continental European countries to be similar to that in Great Britain; namely, if the patronage dividend were taxed in those countries in the hands of the co-operatives, there would be actual discrimination against the co-operative form of doing business. We have not got details as to the pre-war corporation tax systems in the European countries referred to, but we feel

certain that there was no such double taxation of corporation profits as obtains at present in Canada. We are fortified in this view by the statement of Charles E. Stuart (quoted above), namely: 'In the case of higher income groups the original income is already taxed and a tax on patronage refunds would virtually tax part of the income twice.'

That is at least some evidence that generally in these European countries there is not double taxation such as we have here.

"(180) We wish to draw attention again, however, to the unanimity of expression by the various members of the United States Inquiry into the equality and equivalent tax treatment accorded to co-operative and other enterprise. It is such equality that we seek in Canada.

"(181) In order therefore to place co-operatives and mutuals on an equal tax basis to other corporations in Canada, it is essential to tax all profits in the hands of the associations before distribution including so-called patronage dividends.

"(182) We would like to refer very briefly to the matter of taxation of co-operatives in Russia. Mr. Jerome Davis, writing recently from Moscow to the 'New Republic' gives some idea of the extent of taxation in that country. He says that tax revenue there comes first from state industries and co-operatives, on which the government imposes a turnover tax. Everything above the cost of manufacture, he says, belongs to the state. The wholesale price is determined by the actual cost, the turnover tax and the profit, and the consumer pays accordingly. The collective farms are taxed four per cent on

all produce used on the farm, such as seed and food, and also on the income received from sales to the state. The farms pay eight per cent on revenue distributed to members and on products sold on the general market. Then he says that co-operation in Russia is severely taxed, and that the 1940 receipts from this tax on co-operatives were 800 million rubles."

I believe some more information will be given the Commission in due course with respect to the present taxation of co-operatives in Russia.

"(183) We mention these facts to show that so far as our knowledge goes, in no country in Europe do co-operatives enjoy a similar freedom from taxation as they do in Canada.

"(184) In the United States a similar condition of inequality prevails as in Canada. It is interesting to learn, however, that in the United States, as well as in the United Kingdom and Canada, tax exemption began as a charitable gesture -- in the case of Great Britain, to the poor and indigent, and in the case of Canada and the United States, to 'help the farmer.' This began there also at a time (1898) when tax exemption of that kind had very little if any bearing on competitive positions. We quote from a letter dated November 5, 1941, written by L. S. Hulbert, Principal Marketing Economist, Division of Co-operative Marketing, Bureau of Agricultural Economics, Washington:

'Strange as it may seem, we have been unable to locate any material which might be regarded as explaining why the exemption in favor of agricultural co-operative associations was included in the various tax statutes. We have been inclined to the

view that the best explanation would appear to be that it was accepted by Congress that this exemption was one in the furtherance of agriculture and of agricultural producers. At least, originally, co-operative associations acted as the "hired men" of the farmers composing them. In other words, an association simply acted as an agent for its members in the marketing of their farm products or in the purchase of farm supplies for them, and the association was restricted to performing these services on a strictly cost basis. Of course under these conditions there could not possibly be any income that in the ordinary sense of the term at least could be regarded as taxable.

'As time has passed and co-operative associations have greatly expanded their activities, they still operate in principle on the cost basis but this is somewhat obscured by the fact that they are permitted to accumulate reserves out of the savings effected, and they are also permitted to do business with non-members.'

Then I refer to the remarks made by the President of the United States, which perhaps the Commission has seen before.

"(185) §The President of the Republic is well aware of the inequality and tax avoidance in the United States, and in his budget message to congress on January 7, 1942, President Roosevelt made these remarks;

'Progressive taxes are the backbone of the Federal tax system. In recent years much progress has been made in perfecting income, estate, gift and profit taxation, but numerous loopholes still exist. Because some taxpayers use them to avoid taxes, other taxpayers must pay more. The higher the tax rates,

the more urgent it becomes to close loopholes....The privileged treatment given certain types of business in corporate income taxation should be re-examined.'...
'Our tax laws contain various technical inequalities and discriminations. With taxes at wartime levels, it is more urgent than ever to eliminate these defects in our tax system.'

"(186) We believe that these remarks indicate a recognition by the President of the need for the elimination of the privileged taxation treatment granted to co-operative and mutual business in the United States.

"(187) In respect to the position in the United States also, it is to be observed that recently the Federal government has required all co-operatives to make annual financial returns to the Government and this is considered by many as a prelude to their taxation on an equality with their commercial competitors.

PART XI

"Long-Term Effects of Tax Discrimination"

"(188) May we now turn to what we deem to be the broadest aspect or result of tax inequality.

"(189) There is more than one way of transforming a free enterprise economy into a monopolistic one. Many years ago Chief Justice Marshall, one of the great Chief Justices of the United States Supreme Court, wisely said that 'the power to tax is the power to destroy.' That statement is as true now as it was when made. And we submit that the tax power to destroy grows with the measure of tax inequality. Accordingly we believe that long continued and severe discrimination in taxation, either as between individuals, groups or combinations of

capital, will in due time direct or channel or force all business and industry into one of the tax exempt forms of carrying on business. There is ample evidence of this trend in various fields. In respect of business becoming transformed from private ownership to the co-operative method, ample evidence has and will be submitted to the commission of this trend. We submit also that the main reason for this trend is the tax exemption now granted to co-operatives and mutuals. We fully believe that it is not good for any economy to remain static. Nevertheless we do not believe that any proof that the co-operative or mutual methods of doing business in Canada will improve Canadian standards of life is contained in their growth under the shelter of tax exemption in a heavily taxed economy.

"(190) The fundamental difference between our so-called free enterprise economy and an authoritarian one is that under our system we have (or are presumed to have) a free choice in respect of the method or manner in which we carry on our economic enterprises. This 'free choice' is a complete essential of what we call individual liberty. As a result of this right of choice we in Canada have developed various ways of carrying on business such as individual, partnership, corporate, co-operative, mutual and state enterprise. Super-imposed on this free enterprise economy is Government which rules supreme, and holds the scales of justice as between individuals, groups, and forces within the state. In economic matters the greatest power of the state is that of taxation and the most important element in this power is equity. So when Government permits discrimination against, or special privileges, subsidies or preferences in favour of, certain

types of business enterprise, equity is gone and the freedom of choice will in due course vanish. Again we desire to repeat that the evidence is ample to the effect that Canadian business is becoming transformed from tax-paying enterprise to non tax-paying enterprise, solely because of the present tax discrimination in favour of the co-operative, mutual and governmental way of carrying on business.

"(191) It is of course true that when section 4 (p) of the Income War Tax Act was enacted in 1930 no one could conceive of a trend in this direction resulting from the comparatively small tax differential then existing. But with the corporation and excess profits tax taking away from 40% to 80% of their net earnings while business competitors such as mutual fire and casualty companies, co-operative businesses and state owned enterprises are wholly income tax free, the competitive position of corporate business becomes one of paramount concern. Similar conditions prevail in respect of individually or partnership owned business.

"(192) Under our democratic form of government and within our present economic arrangements we believe in competition in business; we disapprove of monopoly control of business and industry. As is well known, severe legal sanctions exist against monopolies except such as are subject to public control and regulation. The large majority of Canadians are, we are sure, convinced that under our competitive economy we can raise our standard of living higher and faster than under any type of monopoly control, be it mutual, co-operative or state or all three combined. Yet we have allowed a situation to develop whereby such tax discrimination exists as hangs a millstone around certain types of business, subsidizes others

through tax exemption, and which in course of time will make 'free choice' in the manner of carryong on business impossible.

"We have been tolerating such discrimination in our taxation methods (or lack of method) as will in due time direct all business and industry into tax exempt forms of carrying on business in Canada. When this process has continued long enough who will then pay the income taxes now paid by private and corporate business in this country?

"(193) In this regard we might quote a brief paragraph from the book of the late Lord Stamp, 'The Fundamental Principles of Taxation' at page 212:

'If the State wishes for national reasons to benefit or assist certain trades, I think, in general the worst method is by discriminations or differentiation in taxation. Direct subvention is open, known, subject to constant check and control and its cost is spread over the nation. Indirect benefit is hidden, unknown in amount, subject to little control as to efficiency, etc., and the cost of what is assumed to be a national benefit is paid by that section of the community which happens to use the products in question.'

"(194) It is true that the author referred particularly to certain trades. We believe that the reasoning applies however just as effectively to certain forms of carrying on trades as to certain trades themselves. If, therefore, it is to be the established policy of Government to assist the co-operative and mutual forms of doing business, the assistance should be given not in the form of elimination of tax burdens to which competitors remain

subject but rather it should be direct, open, known, subject to constant check and control and its cost spread over the nation as a whole rather than being allowed to bear most heavily on business competitors in the form of unfair competition.

PART XII

CONCLUSION AND SUMMARY

"(195) The present exemption of co-operatives and mutuals contained in our income tax laws fosters a widespread feeling of injustice, and under prevailing rates of taxation, there is becoming evident a disposition of hostility towards such enterprises on the part of many, especially those who are so severely affected by the present discrimination.

"(196) It should be remembered that the whole scheme of income taxation is, in the end, dependent for its success upon the goodwill of the general body of taxpayers. Accordingly, the intense dissatisfaction with the exemption of co-operative and mutual concerns is an unhealthy symptom in the Canadian economy. Co-operatives have argued from time to time that if they were made subject to the income tax they would in any event avoid the impact of such taxation by the expedient of doing business at cost. If such is the case, there would appear to be little reason why they should not gracefully accept a change in the income tax law and thereby remove this course of grievance of their fellow citizens. As has often been said, it is important not merely that justice should be done as between one citizen and another, but that justice should also appear to be done. Only by the complete removal of the present exemption from income taxation and by such other revision of the Income War Tax Act as

has previously been suggested in this memorandum, namely appropriate amendments to sections 23 and 32A of the Act can justice at least appear to be done."

The rest of the brief is the summary, which I will not read. I thank you very much for your patience, Mr. Chairman.

THE CHAIRMAN: I think the Commission should express its thanks to you, Mr. Thorvaldson, for a very carefully prepared brief. It will be of great assistance to us.

MR. PARKER: I wonder if Mr. Thorvaldson would elaborate on pages 49 and 50 when dealing with the likenesses between the two types of corporations. At the bottom of page 49 he states: "Profits are earned in the same way -- through the operation of physical facilities and through buying, selling, processing, manufacturing, servicing, or whatever activities the corporation or co-operative is engaging in." Would he state whether he makes any distinction between the type of business he is speaking of there and the type of business which the co-operatives are said to be carrying on, on a pure consignment basis. There is a good deal of evidence before the Commission that their business is done on a handling agency basis, with particular reference to producers.

MR. THORVALDSON: A distinction must be drawn between the so-called co-operative type of business, by reason of which the co-operative claims exemption from taxation by virtue of the doctrine of mutuality, and the other type of agency business such as we see in Alberta in the cattle pool. I should say that their type of agency business, where there was no processing and the cattle pool charged merely a dollar a car, and on \$2,000,000 worth of business there was an over-charge of \$17,000,

which is practically nothing, is to my mind a purely agency concern. That must be distinguished from the type of co-operative that invokes the doctrine of mutuality. In other words, you have the old Wheat Board case again. The 1930 decision was predicated on the basis of the old Wheat Board acting entirely as agent or factor and having no profits because it contracted to do the business at cost.

MR. PARKER: On page 59 of your brief you have given figures to show the growth in the amount of business done by co-operatives in the last few years. I presume you would state, without having exact figures, that there has been a very great increase in the amount of business done in the same period with what is known as private business or non-cooperative business.

MR. THORVALDSON: Yes.

MR. PARKER: Would you say that in their growth they have run parallel courses, or have you reason to believe that the acceleration in the growth of co-operatives has exceeded that of the other type of business?

THE CHAIRMAN: That is a matter of statistics.

MR. THORVALDSON: Yes. Generally I say that the increase in the growth of co-operative business has been largely, I do not say wholly, a result of tax discrimination. That, however, is I suppose a matter of opinion.

MR. ELLIOTT: You suggest that co-operatives handle 24 per cent of the main farm products. I presume that is an average of certain specified percentages obtained from the Economics Division of the Department of Agriculture figures.

MR. THORVALDSON: That comes as a quotation from the recent report by the Economics Branch; 24 per cent is the actual figure.

MR. ELLIOTT: A little further on you suggest that the co-operatives are not bearing their fair share in proportion to the business done. You are not suggesting, of course, that the income tax is a tax in proportion to gross sales.

MR. THORVALDSON: No. I do say, though, that the co-operatives are bearing no share at all of income tax.

MR. ELLIOTT: With reference to paragraph 122, on page 47, can you tell us how you made this estimate of \$20,000,000?

MR. THORVALDSON: In various ways, one of which is this. The co-operatives in 1943 did a business of \$352,000,000. Various financial statements of co-operatives have been filed with the Commission, starting with Vancouver up to Winnipeg, and you will have noticed that practically all these financial statements, or at any rate many of them, gave the figures of the net profits they claimed they had made in various years. I have looked at a number of them and the profits range from 7 per cent to 20 per cent. Over all, the 1943 trading profits whether co-operatives or ordinary business, were pretty heavy. I suggest 12 or 15 per cent as the average, but let us put them at, say, 10 per cent, which is a low figure for a period of years. Then in trading to the extent of \$350,000,000 -- and that, by the way, is only the reported trading; I do not think the Dominion has all the figures -- if there is a net profit of 10 per cent you have a total profit of \$35,000,000. I believe the excess profits tax over all in Canada amounts to approximately 70 per cent. The United States figure is given as 65 per cent. Our taxes are heavier than the American taxes and I believe the figure is approximately 70 per cent in the case of

corporations. I do not think the co-operatives would fare any better than corporations on the standard basis, and if it is fair to take 70 per cent of that \$35,000,000 it would give \$24,500,000. Or, reducing it to 50 per cent, let us say, even then it would give you \$17,500,000. In the case of the mutuals' profits, the figure is \$2,298,000. The joint stock companies pay at the rate of 73 per cent; we know that, and I have calculated it. The joint stock companies, with profits in 1943 of \$5,907,000 paid \$4,300,000. That is 73 per cent of all their profits. Calculating the mutuals at that rate, they should have paid in taxes \$1,500,000. Add that to the \$17,500,000 which I have already mentioned and it gives you \$19,000,000. That is one way of making the calculation. Those are published figures. In the case of the three prairie pools, they should have paid in 1943 between \$7,000,000 and \$8,000,000. That may be out a million or so, but I do not think it is very far out.

MR. ARNASON: Would you care to refer to paragraph 119. You say there: "Another type of co-operative, credit unions, now number nearly 1800 and in 1943 loaned \$16,900-000. Mutual fire and casualty insurance companies which are also exempt from income taxation did an annual volume of business in 1942 of a premium income of \$12,616,990 which yielded a profit of \$2,298,662." That, I notice, is about your only reference to credit unions in the brief.

MR. THORVALDSON: Yes.

MR. ARNASON: What were your reasons for including credit unions in this particular section?

MR. THORVALDSON: I must confess that I did not say more about them for the reason that personally I know

very little about credit unions or about their way of doing business. They are not a substantial tax factor at the present time. That is the reason I did not say more about them, but it is also largely because of personal ignorance.

MR. VAUGHAN: In paragraph 71, page 32, you say: "However, in addition to the exemption of marketing co-operatives a de facto exemption has been conferred by administrative ruling or practice upon the incomes of distributive co-operatives, including co-operative wholesale and retail stores." Then in the last two lines of that paragraph you say: "Moreover the entire income of the co-operative would in such case be exempt, whereas the practice has been to treat as exempt only the patronage dividend." There seems to be a little difference between those two opinions; and on the next page, in paragraph 73, you make this statement in the last sentence: "Income from reserves, it is understood, and undistributed surplus is taxed." Further, in section 74, you say: "In the case of the wholesale co-operative, patronage distributions to its members are deductible as a trade expense from the association's own income, but are taxed in the hands of the retail co-operative store as a trade receipt." Now, turn to the table following, dealing with taxation as applied to joint stock companies, marketing co-operatives, and wholesale and retail distributive co-operative corporations. Under the last heading the statement appears: "Taxed after deduction of any patronage dividends paid." How can all that be reconciled?

MR. ADAMSON: Marketing co-operatives come under section 4 (p). You are not concerned with that, but simply with the administrative exemption of distributive co-operatives.

MR. VAUGHAN: That is where these differences seem to appear.

MR. ADAMSON: In paragraph 71 I mention that distributive co-operatives do not qualify for exemption under section 4 (p), and I ask the question, on what basis are they exempted. I say it cannot be a de facto exemption granted by the Commissioner of Income Tax on the ground that such concerns are entitled to exemption as mutual companies because in that case they would be subject to the provisions of section 4 (g) of the Act. That section restricts the exemption of mutual corporations to such as have no share capital, and in addition all transactions would have to be restricted to members of the association. I go on to say: "But we understand the exemption has not been so restricted. Moreover the entire income of the co-operative would in such case be exempt" -- that is, if it came under section 4 (g); their whole income would be exempt if they qualified under that section -- "whereas the practice has been to treat as exempt only the patronage dividend."

MR. VAUGHAN: The reserves are taxed?

MR. ADAMSON: Yes. That is my understanding of the way these distributive co-operatives were treated until quite recently.

MR. VAUGHAN: I am speaking of the practice at the present time.

MR. ADAMSON: At the present moment the whole thing is in the air; they do not seem to know what the position is. In paragraph 75 I am dealing with the way they were treated up to the time that this Commission was appointed. Wholesale and retail distributors co-operative trading profits were taxed after deduction of any patronage dividends, and then the dividends in the hands of the recipient

were exempt unless entering into the recipient's trading account, and dividends on shares were taxed.

MR. VAUGHAN: Personally, I have not understood that the wholesale and distributive properties were taxed at all.

MR. ADAMSON: They are taxed on anything made but reserves and undistributed income. There has been a recent ruling whereby they are taxed now. I am speaking of right up to the time this Commission was appointed. There has been a change in their treatment, but that does not alter the fact that shortly before this Commission was appointed they were receiving exemption. Now the Income Tax Department says they must qualify under section 4 (p).

MR. VAUGHAN: Is it a ruling made since the Commission was appointed?

MR. ADAMSON: Just before the Commission was appointed that statement came out in the press.

MR. ARNASON: Are you sure it was not a ruling made in the case of certain co-operatives rather than a general ruling?

MR. ADAMSON: I do not know whether it was. All I know is that this information is supported by what Mr. Keen, the secretary of the Co-Operative Union of Canada, said in his letter of 1941. That is what he says in his letter.

MR. ELLIOTT: In that letter, in the second line from the bottom, reference is made to urban co-operatives.

MR. ADAMSON: Yes; that is right.

MR. VAUGHAN: It is contrary to my understanding of the matter.

MR. ADAMSON: You can find out from the income tax authorities. I believe it is the way they were treated

until a few months ago but now there has been a change. I believe there has been a ruling and they have all been required to qualify under 4 (p). That is my understanding of the situation.

MR. THORVALDSON: I may say to Mr. Vaughan that in that respect I am as confused as he is. These paragraphs were prepared by Mr. Adamson and they were clear to me before travelling with the Commission; but since I have been with the Commission, from Vancouver to Winnipeg, I have found that various things are done in various places and goodness only knows what is right and what is not. On that point I made a memorandum in connection with the Lloydminster co-operators store, which was before the Commission in Regina, and I wondered why one co-operative store was paying taxes. The representative of the Lloydminster store said he had been paying taxes on his reserves but not on patronage dividend. There was some kind of ruling applied to him that he should pay some taxes but I did not know why and I have not found another co-operative paying taxes anywhere.

MR. VAUGHAN: So far as certain co-operatives are concerned, the reason was that they were doing more than 20 per cent of their business with non-members.

MR. ADAMSON: These, I understand, are the rulings in the department in Winnipeg and they are in accordance with the statement of Mr. Keen. I do not say it is the correct application of the Act, but it is what I way was until recently the set-up in some departments.

MR. MILLIKEN: On page 52, in paragraph 149, with reference to the former wheat pools as they operated in western Canada, the following statement is made: "They had no profits because they were intended to act exclus-

ively as the producer's agents or factors to handle his grain and to account to him for the total price of each particular kind and grade of grain, less selling and handling costs." Did you mean to imply in that last sentence that in that case they were not pooling in the sense that one man's grain might be sold at a figure below what was finally paid to him? What I am suggesting is, if I understand the matter, that they were doing the same kind of pooling of prices at which they were selling that you were referring to previously in your brief.

MR. THORVALDSON: I was not referring to pooling at all. I was referring to the over-charge theory in relation to patronage dividends and not to the question of pooling.

THE CHAIRMAN: This closes the brief. What do you propose now, Mr. Parker?

THE MAJOR CO-OPERATIVE ORGANIZATIONS OF MANITOBA

MR. PARKER: I propose to take up now the brief submitted on behalf of the Major Co-operative Organizations in the province of Manitoba.

MR. SCARTH: Mr. Hull, who is submitting the brief, has a very bad cold and he was wondering if it would be permissible for him to go into the box and swear to the contents of the brief and get someone else to read the brief for him.

THE CHAIRMAN: Undoubtedly.

J. T. HULL

Secretary,
Canadian Co-operative Wheat Producers
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. You are Secretary of the Canadian co-operative Wheat Producers? A. Yes.

Q. What position do you hold in the organization that prepared the brief? A. This brief was prepared for those organizations which up to a few years ago formed the Manitoba Co-operative Conference and on behalf of those organizations I prepared for them this brief representing the organizations whose names appear at the end of the brief.

Q. The first is the Manitoba Pool Elevators. Is that a limited company? A. The word limited has been deleted.

Q. What kind of institution is it?

MR. SCARTH: There is no share capital.

BY MR. PARKER:

Q.. The others are Manitoba Co-operative Poultry Marketing Association Limited, Manitoba Co-operative Dairies Limited, Manitoba Co-operative Livestock Producers Limited and Manitoba Co-operative Wholesale Limited. Are these five all co-operative associations?

A. Yes.

Q. And this is a general brief on their behalf?

A. Yes, a general brief on behalf of the total co-operative movement.

Q. Did you prepare this yourself? A. Yes.

Q. After consulting with whom? A. This brief was prepared at the request of a committee representing all these organizations in Manitoba. The brief was prepared and submitted to a committee for examination and was approved as it appears here now.

Q. How large was the committee? A. From all these organizations and other co-operative associations as well as the ones that appear here there was a committee appointed.

Q. How big was the committee that met to discuss the matter, approximately? A. Ten or twelve.

Q. Was it unanimous? A. Unanimous.

Q. How is it that some did not associate themselves with the brief? A. Because they were not asked.

Q. Why? A. Because as a matter of fact this was put through as representing the whole province. The others were smaller organizations.

MR. SCARTH: You are familiar with the contents of the brief, and they are correct in so far as they are factual?

THE WITNESS: Yes.

MR. SCARTH: Mr. Hull would like to have Mr. Ransom read the brief for him.

MR. RANSOM: The brief is as follows:

"Brief Submitted on Behalf of the Major Co-operative Organizations in the Province of Manitoba, by J. T. Hull, Secretary, Canadian Co-operative Wheat Producers Limited, Formerly Secretary of Manitoba Co-operative Conference.

"Whether or not, as some sociologists maintain, two forces condition the processes of organic evolution, which have been described as the Law of Mutual Struggle and the Law of Mutual Aid, it is beyond dispute that there could be no persistence of group life without the cohesion created by co-operative action. Human society must therefore be regarded as fundamentally the product of co-operation, that is, within the society the processes which we call co-operative are dominant.

Within the society, individuals seeking satisfaction for their physical and psychical needs may struggle

against or cooperate with each other; they may pursue the method of competing with others for the achievement of desired ends or they may pursue the method of working together; the method adopted will depend upon the environment, the stage of social organization, and the degree of intelligence in the group as related to the knowledge of the adaptation of means to ends. Where the ends are scarce and not sharable the method may well be that of competition; where the ends are sharable, there will undoubtedly be a gradual and persistent extension of the method of co-operation. This process has been well described by Professor R. M. MacIver in the following paragraph:

'To trace the growth of community from the dim origins of "Cyclopean" family-community, through primitive clan and tribe and horde, through isolated or semi-isolated communistic village, through warring city community and badly integrated empire, through feudal confusion on to the close-knit social life of modern western states, is to follow the process, indirect, indeterminate, broken yet victorious, by which human life has been reclaimed from the waste as the principle of co-operation has more and more become active within it.'

"It may thus be maintained that civilization began when men became conscious of the value of associated effort for the achievement of ends that were sharable by a group and the way of co-operation as a substitute for the way of strife became a social aspiration and a dominant factor in the art of living together.

"The ancient village communities with their co-operative economy, the many societies to be found in

practically every stage of civilization designed to help people to meet the unforeseen contingencies of life, the myth of a Golden Age, buried somewhere in the mists of the past, when human relations were perfectly harmonious and justice and plenty prevailed; the ethical precepts to be found in all the books of the world's religions, all alike, testify to a widely-held faith in the value of men working together for mutual benefit and the common good, and are evidence of the universality of the practice of co-operation and its persistence as a social inheritance.

"In fact, we may say with the authors of the most important book on co-operation, published in recent years:

'The co-operative ideal is as old as human society.

It is the idea of conflict and competition that is new. The development of the ideal of co-operation in the nineteenth century can best be understood as an attempt to make explicit a principle which is inherent in the constitution of society, but which had been forgotten in the turmoil and disintegration of rapid economic change. It is against the background of the industrial revolution and of the industrial dislocation which accompanied it that early ideas of co-operation and the origins of the co-operative movement must be judged.*

The Modern Movement.

"The practical application of the principle of co-operation to the provision of economic services may be dated from around the beginning of the nineteenth cen-

* Consumers' Co-operation in Great Britain by Professors A. M. Carr-Saunders, P. Sargent Florence, Robert Peers in consultation with a number of Economists and Teachers. Page 23



tury. The first efforts were of a purely local character and in many cases the product of philanthropy, designed to make food in particular cheaper to the very poor. Co-operation in the marketing of certain agricultural products has a lengthy history; the celebrated Gruyere and Cheddar cheese, the one in France and Switzerland, and the other in England, were both co-operatively made from milk pooled by the producers who shared in the product in proportion to their contribution to the pool two centuries or so ago.

"The early years of the nineteenth century witnessed a considerable intellectual activity among the masses of the British people, and co-operation as a means of raising capital to enable the workers to gain command of the means of production and distribution, became the centre of a vigorous working-class propaganda. Organizations were formed to carry on co-operative education; papers were published to popularize the principles and the methods of co-operative business; national congresses were held for the discussion and promotion of the idea and the purpose of co-operative enterprises. It is said there were about 400 co-operative retail stores operating in Great Britain in the third decade of the century. Most of these societies failed; they offered no immediate benefit to their members, and a stake in a distant and uncertain Utopia or, as it was then stated, 'a self-supporting community of united interests,' had no sustained appeal. The propaganda, however, laid the foundation for the movement which today covers the earth.

The Rochdale Principles

"It has become customary to date the modern successful consumers' co-operative movement from the founding of



the Rochdale Equitable Pioneers Co-operative Society in 1844. The story of Rochdale is well known: how a group of Rochdale workers, meeting for the purpose of discussing the economic conditions of the time, decided to try and reduce the cost of living by opening a retail store from which to supply themselves with food and clothing, and from which to go to a much greater organization of economic and social services; how they raised approximately \$140 with which to start: how they laid down certain rules and regulations for the organization and conduct of the business, including the disposal of any surplus arising from the trading transactions; how their enterprise developed and became the stimulus for similar enterprises in practically every civilized country in the world.

"The main principles or rules of co-operative organization and procedure laid down by the Rochdale Pioneers and which have been, in the main, the model of all succeeding purchasing co-operatives and their universal distinguishing feature by contrast with profit-making institutions were as follows:

1. Open, unlimited membership
2. Democratic control; each member one vote only, regardless of his contribution to the capital.
3. All net savings to be distributed among the members in proportion to their purchases.
4. Limited rate of interest on capital contributed
5. Goods to be sold at the current market rate and for cash only.
6. Education in the principles, practice and purpose of co-operation.
7. Accounts to be properly kept and regularly submitted to the members.

"With slight variations, according to the type of society, its function, and the conditions in which it has to operate, these rules may be said to be characteristic of co-operative societies no matter in what country they are situated.

"A few years after the founding of the Rochdale store, and when the co-operative movement was developing and attracting the attention of men prominent in public life and affairs, John Stuart Mill, in his renowned Principles of Political Economy, referred to the movement in these words:

'The form of association, however, which if mankind continues to improve, must be expected in the end to predominate is not that which can exist between a capitalist as chief and work people without a voice in the management, but the association of the laborers themselves on terms of equality collectively owning the capital with which they carry on their operations and working under managers elected and removable by themselves.....

'Eventually, and in perhaps a less remote future than may be supposed, we may, through the co-operative principle see our way to a change in society, which would combine the freedom and independence of the individual with the moral, intellectual and economical advantages of aggregate production; and which without violence or spoliation, or even any sudden disturbance of existing habits and expectations, would realise at least in the industrial department, the best aspirations of the democratic spirit, by putting an end to the division of society into the industrious and the idle, and effacing all social

distinctions but those fairly earned by personal services and exertions.*

"Forty years later, Professor Alfred A. Marshall, in his day the most influential theorist and teacher of economics, in an address to the 21st British Annual Co-operative Congress, had this to say about the co-operative movement:

'I regard it as the typical and most representative product of the age; because it combines high aspirations with calm and strenuous action, and because it sets itself to develop the spontaneous energies of the individual while training him to collective action by the aid of collective resources, and for the attainment of collective ends. It has points of affinity with many other movements; but it is like no other.'

'Other schemes for developing the world's material resources are equally practical and equally business-like, but they have not the same direct aim to improve the quality of man himself. Other schemes for social reform have equally high aspirations, but they have not the same broad basis of patient action and practical wisdom. What distinguishes co-operation from all other movements is that it is at once a strong and calm and wise business, and a strong and fervent and proselytising faith.'

The Spread of the Movement

"In continental Europe self-help institutions of one kind or another have existed from the earliest times, especially sickness and death benefit societies. Co-operative credit societies for urban workers were estab-

* J.S. Mill - Principles of Political Economy, Book 4, Chapter 7, Section 6, Ashley Edit.

lished in Germany by H. Schultze-Delitzsch in 1859; a similar kind of credit co-operative for peasant farmers was established by F. W. Raiffeisen in 1862, these institutions being the forerunner of the modern credit union and co-operative banks. In time, these credit co-operatives were combined with supply and marketing co-operatives. Consumer societies, service societies, marketing co-operatives - co-operatives of many kinds exist in every European country.

"On the North American continent co-operation began in much the same manner as it began on the other side of the Atlantic. The early pioneers who blazed a trail for civilization across the trackless prairies or hewed homes for themselves out of the primeval forest, made an inevitably rough life more bearable by the practice of mutual aid. There are records of workers' co-operative productive societies in the United States in the last decade of the eighteenth century, and the numerous colonies or communities organized around a co-operative economy give evidence of a spirit of brotherhood even if the ideal proved in the end too lofty. In the 1830's, co-operative stores were opened by the New England Association of Farmers and Mechanics and in the next decade the New England Protective Union built up a system of co-operative stores which at their height did an annual business of around \$2,000-000.

"What of these co-operative efforts managed to survive the apathy of members disappeared during the disruption attending the Civil War, but with the return of peace, a new co-operative movement began, founded on Rochdale principles and invading both rural and urban life.

"Among the farmers of Patrons of Husbandry, better known perhaps as The Grange, led the way in the promotion of co-operation. The following clause from the Declaration of Principles of this organization showed a commendable grasp of the co-operative idea as a way of living:

'We propose meeting together, talking together, working together, buying together, selling together, and in general, acting together for our mutual protection and advancement.'

"The Patrons claimed, in 1874, that through their co-operative stores they were saving their patrons \$12,000,000 a year.

"Industrial workers' organizations also entered the field and it may be noted that overlapping of the industrial and farmer co-operatives, at any given point, was avoided by specific arrangement.

"Agricultural marketing co-operatives in the United States date back to the first decade of the nineteenth century and throughout the century this kind of co-operative has made gigantic strides and represents, by far, the largest co-operative business in the country.

"As might be expected, the activities of these farmers' organizations crossed the border and the Canadian organizations followed the lead of the parent organization in setting up co-operatives, mostly in Ontario.

"Co-operation in western Canada appears to have begun with dairying. In the last decade of the nineteenth century the provincial government of Manitoba gave financial assistance for the establishment in the province of co-operative creameries and cheese factories. In what was then the North-West Territories, now Saskatchewan and Alberta, the Dominion Government made loans to farmers

who undertook to organize butter and cheese making factories and to deliver all their cream to these co-operatives. These efforts were rendered abortive by the rush into grain growing; the creameries died for lack of material.

"Ten years later a beginning was made in co-operative grain marketing which after the first world war developed into the Wheat Pools, which despite the disastrous experience of the great financial and commercial crisis of the 1930's still remain the largest grain marketing organizations in the world.

Co-operation in Manitoba

"Grain growers of the west complained loudly and bitterly of abuses in the early years of the grain trade, abuses which were the subject of many government inquiries into the trade and the elimination of which was the object of special legislation. The farmers, however, were not satisfied, and about 1904 they began an agitation for a co-operative grain handling and marketing organization. They organized in Manitoba the Manitoba Grain Growers Association and further west the Territorial Grain Growers Association and these two bodies organized the Grain Growers Grain Company. During this process they sent one of their number to take a look at the Winnipeg Grain Exchange (established 1887) and in his report he described it as 'a combine with a gambling hell thrown in.' The new company commenced business with a seat on the Exchange in 1906, and six weeks after it started it was suspended from the Exchange, one of the reasons given for the suspension being that the policy of the company to pay patronage dividends was equivalent to splitting the commission with the shipper which was forbidden by by-law No. 19 of the Exchange.

The result was a bitter fight in which the young company was brought to the verge of ruin, and in which the provincial government ultimately took a hand. Eventually the company discovered that because it was incorporated under the provincial Companies Act it could not pay patronage dividends; it therefore abandoned that part of its policy, and in doing this it created a dissatisfaction among the grain growers that was to exist for nearly twenty years. Not until the establishment of the Wheat Pools did the co-operatively-minded grain growers get the kind of institution they wanted.

"One outcome of the complaints of the grain growers was that the government of Manitoba in 1910 went into the grain elevator business. After two years' experience the experiment was given up and the elevators the government acquired were leased to the farmers' company, Manitoba Grain Growers Grain Company.

"It may be here mentioned that in the neighboring provinces of Saskatchewan and Alberta government appointed committees recommended the establishment of co-operative elevator systems and by 1913 all three provinces had such systems. In 1917 the Alberta and Manitoba systems combined to form United Grain Growers Ltd.

"United Grain Growers took on other lines of business besides grain marketing. They set up a supply department for the furnishing of heavy goods, such as coal, lumber, flour, binder twine, fence posts, wire, etc., in bulk, which were shipped on order from local associations or individual farmers. They also went into farm implements and the lumber business: in 1916 they opened a livestock marketing department.

"Bulk buying of goods for the farm and household

was also undertaken by locals of the Manitoba Grain growers' Association, later the United Farmers of Manitoba, and these local efforts became the precursors of local co-operative societies.

"Following the first world war, co-operation developed rapidly in the province. Manitoba Co-operative Dairies was established in 1921; Manitoba Egg and Poultry Co-operative Marketing Association began in a small way in the southern part of the province in 1922; Manitoba Pool Elevators, at first a subsidiary of Manitoba Wheat Pool began in 1925; Manitoba Co-operative Livestock Producers was formed in 1927 and in the same year Manitoba co-operative Wholesale was organized. The starting place of most of these organizations was in the United Farmers of Manitoba; all of them were the result of a demand of the organized farmers of the province.

"All of these province-wide organizations, we understand, will present briefs to the Commission and each will deal in detail with its set-up and operation.

"On December 31, 1944, the number of co-operative associations operating in Manitoba under provincial charters was 363, classified as follows:

Marketing associations	226
Consumers' associations	116
Miscellaneous	<u>21</u>
Total	363

"Of the 226 marketing associations, 180 are local co-operative elevator associations and members of Manitoba Pool Elevators; 26 are dairying associations, chiefly cheese factories and creameries; and 10 are for the cleaning and marketing of forage crop seeds. The remainder are engaged in the marketing of livestock, poultry

and eggs, vegetables, corn and honey.

"The consumers' associations include two main types, (1) grocery and general stores and (2) co-operative oil stations, which as a rule besides handling petroleum products supply their members with bulk commodities such as binder twine, coal, flour, fencing, etc.

"The associations classified as miscellaneous provide a variety of services for their communities, such as community halls, curling and skating rinks, trucking services, machine shops and hatcheries. One manufactures leather goods, such as gloves and mitts; another operates two boarding houses for university students.

"In addition to these co-operative associations, there are ninety-three credit unions operating in the province of Manitoba.

Co-operative legislation in Manitoba

"The earliest Co-operative Act was Chapter 12 of the Statutes of Manitoba, 1887, entitled: 'An Act respecting Co-operative Associations'. The Act provided that any seven or more persons who desired to associate themselves together for the purpose of carrying on any labour, trade or business, except the working of mines, minerals or quarries and the business of banking and insurance, might become a body corporate by making a certificate in writing in the form provided in the Act, and by filing it with the Registrar of the Registration Division in which the business was to be carried on, together with a copy of rules agreed upon for the regulation and management of the Association. The capital was to consist of shares of the denomination to be fixed by the rules, and might be either transferable shares or withdrawable shares.

"This legislation continued in force until 1916,

when the Act was repealed, and a new Act was passed, being Chapter 23, S.M. 1916.

"Section 25 of this Act provided for the apportionment of profits as follows:

- '(a) By setting aside not less than ten per cent of the net profits for a reserve fund until an amount has accumulated in such fund equal to at least thirty per cent or more of the paid up capital stock;
- (b) By paying interest on the paid up capital stock at a rate not exceeding seven per cent per annum;
- (c) The remainder of the profits shall be divided among the patrons of the association who are shareholders, in proportion to the volume of business they have done with the association.'

"It was also provided that, if authorized by supplementary by-laws of the association, the association might allow an equal rate of dividend on business done with non-shareholder patrons, but that the full amount of such dividend should be credited to the account of the patron on account of capital stock until an amount had been accumulated equal to the par value of one share. When such a sum had been accumulated a stock certificate for one share should be issued to the patron, and he should thereafter share in the dividends with the other shareholders.

"The Act was amended by Chapter 10, S.M. 1921, by deleting the word 'profits' and inserting in substitution the word 'surplus'.

"The 1916 Act was repealed, and re-enacted, by Chapter 8, S.M. 1925.

"The 1925 Act permitted the incorporation with or without share capital, and had similar provisions for distribution of surplus.

"The 1925 Act was repealed, and re-enacted, by Chapter 5, S.M. 1932.

"The 1932 Act has been carried into the Revised Statutes, and is now Part VII of 'The Companies Act', being Chapter 36, R.S.M. 1940.

"The following sections may be of interest to the Commission:

- '125. A corporation hereafter incorporated shall be deemed to be operated on a co-operative basis, if provision is made in its letters patent or by-laws,
- (a) that no member have more than one vote;
 - (b) that no member, other than a corporation member, vote by proxy; and
 - (c) that the surplus funds arising from the business of the corporation be distributed wholly or in part among the members or amongst members and patrons, in proportion to the volume of business, which they have done with or through the corporation.'

"By section 126, a co-operative could be incorporated with or without share capital, and when incorporated with share capital, should use the word 'Limited' as part of its name.

'133. (1) No member shall hold more than one-twentieth of the total number of ordinary shares of capital stock comprised in the capital of the corporation, and no member shall be entitled to more than one vote.

'(2) No member, other than a corporation member, unless appointed to represent a branch of the corporation or as a district delegate, shall vote at any meeting of the corporation by proxy.'

Apportionment of Surplus

'139. (1) The Directors, after paying expenses and making proper allowance for depreciation, shall apportion the surplus arising from the yearly business of the corporation as follows:

(a) By setting aside not less than ten per centum of the surplus for a reserve fund and so from year to year until the reserve fund is equal to thirty per centum of the paid-up capital or total membership fees, as the case may be, or such greater amount as the by-laws provide;

(b) In the case of a corporation having capital, if the by-laws so provide, by paying interest on the paid-up capital at such rate not exceeding seven per cent per annum as the by-laws provide; and

(c) By dividing the remainder among the members in proportion to the volume of business which they have respectively done with the corporation during the year; or

(d) If the by-laws of the corporation so provide, by dividing the remainder amongst the members and patrons to each in the proportion that the total volume of such business bears to the volume done by him or so that a patron's portion be not less than fifty per cent of a member's portion, and by crediting the amount to be distributed to each patron to his account, and so from year to year until the par value of one share of stock or one membership fee, as the case may be, has been accumulated, whereupon the patron shall be a member and entitled to receive a fully paid-up share or membership certificate.

'(2) Such a distribution to a non-member credited to his account shall revert to the reserve fund if, after four years, or such other period as the by-laws provide, the amount is less than the par value of one share of stock or in a corporation without stock of one membership fee.

'(3) If the by-laws of the corporation so provide, any proportion of the surplus may, instead of being immediately distributed in case, be credited to the members entitled thereto and retained and used by the corporation, and the amounts so retained may bear interest at such rate, not exceeding seven per cent per annum, as is provided in the by-laws, and shall with any accrued interest be paid to the members entitled thereto at such times and under such conditions as the by-laws provide.'

Joint Stock Companies v. Co-operatives

"It is imperative that the fundamental difference between a co-operative association and a joint stock corporation be clearly understood, not only with regard to structure but more especially with regard to function and purpose. In principle, these differences may be summarized as follows:

"A joint stock company is a union of invested capital designed expressly to acquire a return on the capital in the form of profits, these profits being distributed among the investors (shareholders) on the basis of the amount each has invested. The cornerstone of the whole capitalist system of production and distribution is the acquisition of profits: profit is the inducement held out for investment; continued and expanding production,

and with it all employment and wages within the profit system, depend upon continuing profits. No profit, no private investment; no investment, no production.

"For the purpose of this memorandum and in the absence of an authoritative economic definition, we define profits as the surplus of income over all costs, as shown in the accounts of a business concern, which may be reserved in whole or in part by the concern or distributed as dividends to shareholders and for the purpose of acquiring which the business concern was formed. (As a business manager explained once to a government commission: 'Our mill was not built for the Glory of God, but to make profits for the shareholders!').

"A co-operative association is a union of persons who subscribe capital for the purpose of providing themselves with goods and services at cost, thereby eliminating profit. The co-operative as a corporation is an instrument for the co-ordination of identical economic activities of the members of the association: it is not an acquisitive economic unit. The inducement held out by co-operatives is not profit, but saving and service for and by the members of the co-operative for themselves. The cornerstone of the co-operative system is service at cost.

"A joint stock company as a general proposition limits the number of its shareholders, and the voting power of each shareholder in the affairs of the company is determined by the number of shares he holds.

"A co-operative has open membership, the limit being the physical and economic conditions in which it operates, and not its capital structure (if any) and each member has one vote only regardless of his contribution

to the capital.

"A joint stock company is organized to do business with the general public; as seller it is distinct and different from the buyers, or as buyer it is distinct and different from the sellers; the business thus creates a specific income for the sellers; the business thus creates a specific income for the company from sources other than itself.

"A co-operative is organized to provide goods and services for its members, and as a corporate body it is merely the agent for its members. The business transactions are by, with, and for, the members; the members as buyers or sellers are identical and consequently there can be no trading profit; for a man cannot make a profit out of himself, and so there can be no specific income for the co-operative as a legal entity.

(It should be noted that we are dealing only with transactions with and for members).

"The business transactions of a joint stock company, generally speaking, are completed at the time of buying or selling; the business transactions of a co-operative with its members are not completed until an accounting has been made, the cost of doing business, as authorized by the members, ascertained and the excess over cost, if any, properly computed.

"The net surplus, i.e., the profits of a joint stock company, are divided among the shareholders on a share-holding basis. The net surplus of a co-operative is divisible among the members in proportion to the amount each has contributed to the business of the society; in other words, what he has contributed to the surplus, and/or in the case of some marketing co-operatives,

his share of a residual amount from the selling price of the members' produce. This adjustment is known generally as the patronage dividend. The patronage dividend is, from an accounting standpoint simply the final reckoning between the co-operative and the member; it is the process of completing the business transactions over a given period and is not the distribution of a corporate income.

"It may perhaps help to a clearer understanding of the difference between a co-operative and an ordinary joint stock company if the contrasting features are set out in succinct form in parallel columns.

The Contrasting Features of a
Joint Stock Company and a Co-operative Society

A Joint Stock Corporation

A Co-operative

- | | |
|---|--|
| 1. Is a union of capital as an investment to earn a profit | 1. Is a union of persons to supply themselves with goods and services at cost |
| 2. Shareholding is anonymous, that is, shares are freely transferable and may be held by anyone | 2. Shares are identified by persons; the shareholder must be admitted to membership or transfers must be approved by the board of directors |
| 3. Is limited (as a general proposition) in the number of persons owning the business; i.e., the shares are limited in number | 3. There is no limit to the number of persons who may participate in the business within its range of operations; i.e. the number of shares is not limited |
| 4. The shares being limited in number they will fluctuate in value according to the profits they earn | 4. Every shareholder must be a member, thus the shares are not limited and cannot exceed par value |
| 5. Control by the individual is determined by the number of shares he holds | 5. A member has one vote and no more regardless of the number of shares he may hold |
| 6. Surplus earnings, i.e., profits, are the property of the corporation | 6. Surplus belongs to the members, i.e., the customers |

"A Joint Stock Corporation

7. Surplus is divided among the shareholders on the basis of the number of shares held
8. No limit to the dividend paid on share capital
9. The joint stock company does business in a general way with the public; the buyers and the sellers (the parties to the business transactions) are distinct and different
10. The selling price is normally above cost price and the surplus constitutes a trading profit
11. Business is done for the express purpose of realizing the trading profit which becomes the property of the corporation

A Co-operative

7. Surplus is divided among the members in proportion to the amount of business each does with the society, except where a limited interest on capital is paid
8. Fixed maximum rate set for dividends on share capital; in some societies no dividend paid on capital
9. The co-operative is organized to do business with its members; buyers and sellers constitute one body and are identical
10. The selling price is an arbitrary figure containing a margin of business safety above cost and the surplus constitutes an excess charge, or in the case of a marketing co-operative an underpayment.
11. The business is organized and conducted as a mutual service for the benefit of the members and not for the benefit of the co-operative as a legal entity

"A careful comparison of these features of a joint stock company and a co-operative society conclusively demonstrates that these institutions differ markedly in their structure, have different functions to perform and are profoundly different in purpose.

"A joint stock company arranges its capital in accordance with its profit earning capacity, and is designed expressly to create profits for the benefit of the shareholders; it provides goods and services merely as the means to the making of profit. The co-operative is open to all,

has no income from transactions with or for its members and consequently makes no profits from such transactions, and is designed expressly to make goods and services more easily available to its members.

"The joint stock company makes an income for itself and for its shareholders; a co-operative has the single purpose of effecting savings for its members.

"The investor in a joint stock company benefits whether or not he patronizes the company, e.g. a shareholder in Woolworth's draws his dividends although he may never have been inside one of the company's stores; a co-operative confers no benefits upon a person who does not use it.

"In a word, we may say that a co-operative institution is an organized effort to give practical effect to the desire among men to co-ordinate their identical activities for the satisfaction of identical and common interests of one kind or another on a basis of mutuality, the method itself being based upon a conviction that working together for the achievement of sharable ends eliminates all forms of exploitation and is at once the most effective and the most equitable way of bringing into the service of humanity all the useful resources of nature and all the beneficial achievements of the human mind.

"While it is customary to refer to the capital of a co-operative society as consisting of shares, the custom is merely another illustration of the adoption by co-operators of ordinary commercial terms. A share in a co-operative society is merely a member's contribution to the fund required to enable it to give the service for which it is being established; the dividends paid on this capital being generally limited and fixed and not determined by the net surplus, are, in effect,

interest on capital loans.

"It should be noted that some marketing co-operatives operate upon a merely nominal capital or without capital stock. Such co-operatives finance upon the commodity they handle and pay out to members all the product brings in the market, less, of course, handling expenses.

"It is obvious that if it were possible to determine in advance what the costs of operating a co-operative society would be, its purpose to give service at cost could be immediately served by selling or charging at cost. In that case there would be no overcharge and no patronage dividend; although, of course, a co-operative marketing society might have a part of the selling price of the commodity marketed to disburse after the books are closed for the season.

"For obvious reasons of business safety, however, a co-operative must maintain a margin between cost and selling price, and the practice is to conform to the custom of the particular trade. It is clear, however, that the margin is not an income to the co-operative but derives merely from the particular business procedure; the co-operative does not exist for the purpose of creating or acquiring the margin; the margin is a temporary financial safety device contributed to by the members and returnable to them.

"A marketing co-operative, or a farm supply co-operative, is essentially part of the equipment of the farm and just as a threshing outfit, or a tractor, or a combine, may be jointly owned by two or more farmers, and its use jointly shared, so may a grain elevator, a poultry or livestock marketing association, or a farm supply society, be jointly owned, be co-operatively

used, and the savings its effects shared by those establishing the service. These services, we repeat, are not provided by others than those using them for the purpose of making a profit; they are definitely a part of the productive equipment, created for use and not for profit, and to facilitate in the most economical manner the whole process of production as between producer and consumer.

"In order to prevent any misunderstanding, it may be well to state that while the co-operative in its transactions with members has no income of its own, being merely the agent of its members for the carrying on of mutual services, this does not mean that its disbursements to members are invariably in the non-income class; they may constitute income, or they may not, to the recipient.

"For example: John Smith, a farmer, is a member of a marketing, or servicing, or supply co-operative; say, a pool elevator. The savings effected for him through the services of such co-operatives may constitute a reduction in the costs of operating his farm, and where that is the case, they increase the revenue from his farming operations and are definitely an addition to his income and should be so shown in his farming accounts. The same thing applies to a restaurant keeper, for instance, if he buys the supplies for use in his business from a co-operative. Where, however, the savings are effected on household and personal expenses, they constitute no addition to the income of the recipient as they are not used in the creation of an income. The test in all such cases is whether or not the savings received by the member from his co-operative constitute, for him, an income, or are savings from his income.

Legislation

"We have pointed out the distinguishing characteristics of a co-operative society are: democratic control; limited interest on capital; distribution of surplus after provision of necessary reserves. Each of the provinces of the dominion has special legislation regarding co-operative societies and in every case the legislative contains the following provisions:

1. The member to have one vote only regardless of the number of shares held. (In British Columbia the member may vote by proxy for directors only.)
2. The dividend or interest on shares is limited to a set amount.
3. The society must build up reserves to a stated amount.
4. The surplus, after apportionment for reserves, and interest on capital, to be distributed as patronage dividend. (In some provinces permission is given for an educational fund.)

"It will thus be noted that a co-operative incorporated under the laws of any of the provinces is legally obligated to observe the customary and established rules for the conduct of a co-operative society. It should also be noted that these laws, by making obligatory the return of surplus to members in proportion to the business done by each, implicitly recognize the principle that the funds are the property of the members and do not constitute an income for the co-operative as a legal entity.

"We have, unfortunately, no dominion co-operative law; although requests have repeatedly been made for such legislation. As far back as 1906 a Co-operative Bill

was introduced in the Dominion House of Commons. The bill was referred to a special committee of the house; and Mr. Mackenzie King, then Deputy Minister of Labour, gave evidence before the committee in support of the bill and Earl Grey, then Governor-General, gave the committee information on the co-operative movement as President of the International Co-operative Alliance.

"In the course of his evidence, Mr. King said:

'Leading economists of today, both in England and the United States, men who have not at heart the interests of one class of society as against the other, but who look impartially upon economic affairs are, I think, pretty well one in the favor with which they view the co-operative movement as a movement exceptionally beneficial from the point of view of educating the mass of the people, from the point of view of enabling the mass of the people to improve their own conditions and from the point of view of the general betterment and welfare of the people of the country.'

"Lord Grey spoke on the value of co-operatives in Denmark and England, and referred to 'the security which the development of co-operative methods offers against the tyranny of trusts and combines.'

"In 1910 a mass delegation of farmers met the government at Ottawa and presented certain demands, among them being the passing of a co-operative act, and in 1911 the leaders of both parties in the election campaign of that year promised co-operative legislation. In the present day the Canadian Federation of Agriculture has asked for a Dominion Co-operative Act.

"It is in the highest degree desirable that a

co-operative Act should be placed on the statute books of the dominion and that the legislation when enacted should provide an adequate description of a co-operative society and thus place beyond controversy all the questions which have recently arisen regarding the legal status of a co-operative society.

"By way of example we may refer to the definition of a co-operative as contained in the recently enacted Labor Code of Costa Rica:

'A co-operative society is a society of unlimited duration and having a variable and unlimited membership and capital in which the members organize their individual activities and interests through common action for a specific purpose, with a view to improving their social and economic position, without thought of profit and on the basis of distributing any eventual surpluses proportionately to the use made by each member of the common enterprise.'

"In order to rule out discussion upon the nature of the surpluses resulting in a co-operative, it is provided by Article 345 of the law that 'for all legal purposes a co-operative shall be deemed not to make profits. Any surplus appearing on the balance sheet is nothing else than savings resulting from the efficient management of the business of the society.'

"A few months ago the U. S. Congress passed a co-operative law for the District of Columbia in which a co-operative is defined as an organization for acquiring, producing, building, operating, manufacturing, furnishing, exchanging, or distributing any type or types of property, commodities, goods or services for the primary and mutual benefit of the patrons of the association (or their

patrons, if any) as ultimate consumers. The latter provision is to enable one co-operative to become a member of another and thus facilitate the creation of co-operative federations. The name 'co-operative' is restricted and protected.

"We give these examples from recent legislation as an indication of the realization by modern statesmen of the necessity of drafting legislation dealing with co-operatives to accord with the great development and increasingly varied form of co-operative activities.

Co-operative Statistics

"Co-operatives have successfully invaded many departments of modern business. They provide marketing facilities for agricultural products; furnish household and personal requirements; build houses; carry on banking and all lines of insurance; manufacture foods and household goods; run restaurants; operate telephone lines and rural electric services; give fire protection; run bus and tram lines; establish water supplies; organize medical and hospital services; and so on. Indeed, it has been claimed that there is no service of man in society that is not provided by a co-operative society somewhere in the world. So rapid has been the development of the movement, during the last thirty years, particularly, and so wide the area it covers in the economic and social activities of men that, as a way of providing men with goods and services, culture and recreation, and as a means of successfully coping with those world problems which arise from man's contact with man, it has been regarded as one of the marvels of modern social development.

"Data collected and classified by the International

Labor Office show that in 1937-38 there were 810,512 co-operative societies of various kinds throughout the world, 741,543 of which had a membership of 143,261,953.

"Agricultural co-operatives, including credit and insurance societies, numbered 673,665 with membership of 64,565,295 for 623,923 reporting societies. One-third of the societies reported a total business of over seventeen billions of dollars.

"Societies affiliated with the International Co-operative Alliance in thirty-five countries in 1942 reported 47,110 consumers' societies with 17,732,908 members and an annual retail business of £602,168,524. These figures do not include the U.S.S.R., which reports 27,486 societies, with 37,000,000 members and an annual retail business of £1,878,434,290. The business of wholesale societies recorded by the Alliance for 1943 totalled £364,798,393.

"The Dominion Department of Agriculture gives the following data on co-operative societies in Canada for the year 1943:

"Number of associations, 1,675; places of business, 4,431; shareholders or members, 585,826; patrons, 608,680; sales of farm produce \$295,499,274; sales of supplies, \$55,689,141; total business, including other revenue, \$352,785,598. The total assets of these societies amounted to \$187,888,195; value of plant, \$37,273,480; general liabilities, \$125,037,969; paid up share capital, \$13,325,564; reserves and surplus, \$49,524,666; working capital, \$25,576,746.

The Hot Springs Conference

"We desire to call particular attention to the resolu-

tion dealing with the co-operative movement, passed by the United Nations Conference on Food and Agriculture at Hot Springs, Va., May 18-June 3, 1943, to which Canada as a participant in the Conference, is a subscribing nation:

WHEREAS:

1. The co-operative movement has been of very great importance in many countries, both to urban and rural populations, especially in agricultural districts where farming is based on small units and in urban areas of low-income families;
2. The proper functioning of co-operative societies may facilitate adjustments of agricultural production and distribution, as members have confidence in the recommendations and guidance of their own co-operative organizations, which they know operate in the interest of their members and of society in general;
3. The democratic control and educational programs, which are features of the co-operative movement, can play a vital part in the training of good democratic citizens, and assist in inducing a sound conception of economic matters:

THE UNITED NATIONS CONFERENCE ON FOOD AND AGRICULTURE RECOMMENDS:

1. That, in order to make it possible for people to help themselves in lowering costs of production and costs of distribution and marketing:
 - (a) All countries study the possibilities of the further establishment of producer and consumer co-operative societies in order to render necessary production, marketing, purchasing, finance and other services;

- (b) Each nation examine its laws, regulations, and institutions to determine if legal or institutional obstacles to co-operative development exist, in order to make desirable adjustments;
- (c) Full information as to the present development of co-operatives in different countries be made available through the permanent organization recommended in Resolution 11.

"The Social Value of Co-operation"

"The universality and persistence of co-operation throughout human history justifies the belief that it meets a definite need of man, not only in his reaction to his social and economic environment, but in a satisfaction of his psychological and spiritual nature. For it may be stated definitely that any ideal of peaceful, concordant, social development implies the means of co-operation - man cannot achieve the best that is in him except in relation to his fellows; he cannot satisfy the requirements of his nature except by social contacts. The good life is only to be achieved by men working together for the achievement of sharable ends, and agreeing to the individual pursuit of non-sharable ends that are not injurious to others. The best society conceivable is one in which co-operation with this end in view is the most nearly perfect and complete. From the early days of the nineteenth century when Robert Owen, one of the founders of the movement, stressed the importance of creating and developing character so that the individuals might be fitted for the ideal social order, co-operators have kept education and character-building in the forefront of their social program. The co-operative institution was not only to be an instrument

for the economic betterment of the people but one to give training in citizenship and in the development of a sense of civic responsibility. The co-operative institutions which present this brief live up to this high purpose of the movement. They organize groups for educational and social purposes; they keep constantly before their members their individual responsibilities in the operation of their co-operatives; they encourage their members in every way to take an interest in the great problems of modern society and they emphasize the imperative necessity of developing the art of living together by activities within their local community.

"Co-operation has thus a tremendous and unique social value and we submit that if out of this terrible conflict which is disrupting human relations all over the world there is to emerge a social order or social orders in which men may peacefully organize their lives in such manner as to satisfy the human sense of justice, the governments of the nations should take deeply to heart the recommendations of the Hot Springs Conference and take such steps as may be necessary to remove obstacles to the development of co-operative institutions and give such encouragement to the co-operative movement as will strengthen its economic, civic and social value and sustain it as a practical means of enabling man to master the whole art of living together.

Summary

"We submit that a co-operative institution consists of a number of people who have joined together to provide services for each other, that the interests of each in the institution are identical, that the function

of the institution is simply to co-ordinate the activities for the satisfaction of these interests and for the common good of the members. We contend that the fact that the co-ordinating function is performed by a special legal entity does not destroy the basis of mutualism upon which the members associate. We also contend that in the co-ordinating function, as by and for members, there is no external source of revenue for the co-operative; its transactions being by and for the members cannot logically create a profit, either for itself or for its members, for the transactions do not go beyond the mutual interest of the members. The co-operative institution, therefore, has no income in the economic sense; it has merely receipts which belong to its members and which may or may not ultimately be income to the members; but in any case are not income to itself. There is thus no basis of assessment for income tax in a co-operative organization as defined in this memorandum.

The co-operative societies associated with this brief are:

Manitoba Pool Elevators

Manitoba Co-operative Poultry Marketing Association Ltd.

Manitoba Co-operative Dairies Ltd

Manitoba Co-operative Livestock Producers Ltd.

Manitoba Co-operative Wholesale Ltd."

The Commission thereupon adjourned to meet on Tuesday, February 6, at 9.30 a.m.

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Winnipeg, Manitoba
Tuesday,
February 6, 1945.

The Commission met at 9.30 a.m., Mr. Justice McDougall presiding.

Examination of J. T. Hull, continued

BY MR. PARKER:

Q. There are one or two points in your brief to which I would like to call your attention for a moment. In the middle of page three you are apparently summarizing the principles of the Rochdale societies and about the third or fourth line from the end of the paragraph you describe ".....how they raised approximately \$140 with which to start: how they laid down certain rules and regulations for the organization and conduct of the business, including the disposal of any surplus arising from the trading transactions." Did those societies carry on trading transactions? A. With their members.

Q. But they were trading transactions, as you understand? A. They used the phrase themselves, "trading transactions"; they used that language.

Q. The reason I call it to your attention is that we have had some evidence as to what constitutes trading and trading transactions. As you understand it, those old pioneers in that business were carrying on trading transactions? A. That is the language they used; but I would point out that in this cooperative movement we have run up against difficulties all the time because the co-operators themselves use the current commercial language, the same technology.

Q. To describe the same activities? A. To describe what they were doing. They used the word trading just as

they used the word profits. They used the word profits too.

Q. As you understand it, those societies were carrying on what they called, and what you have called here, trading transactions? A. Yes.

Q. Did those principles include the holding of deferred dividends for some five or six years, or was that contrary to the principles? A. They withheld them at times in the process of the development of the cooperative movement in England.

Q. I am talking about the principles laid down originally. A. There was nothing laid down in the principles about deferred dividends.

Q. Was there anything involved in those principles in regard to the members carrying on manufacturing and processing in connection with their commodities, either as producers or as consumers? A. The pioneers themselves did step out into certain productive enterprises. They invested as a matter of fact in a corn mill and flour mill.

Q. How early after their formation? A. In the neighbourhood of eight years, if I remember rightly.

Q. I want your understanding of the matter, as to whether that was one of the principles of those old societies, that they could carry on manufacturing and processing operations and call it all trade according to their principles. Is that the way you understand it? A. Their ambition as a matter of fact was --

Q. I am not talking about their ambitions but about their principles. A. The principles they set up included, as a matter of fact, the principle that the whole organization of production and distribution should

be in the hands of the people themselves.

Q. I am talking not about production and distribution but about manufacturing processes. A. I would call that production.

THE CHAIRMAN: Do you regard the deferring of dividends as a departure from the original cooperative principles -- the deferring of dividends for a period of several years?

THE WITNESS: That is a departure, yes. It is a system which has developed in the course of time, however, in the cooperative movement as a whole.

THE CHAIRMAN: That would not have been accepted by the Rochdale pioneers?

THE WITNESS: I am afraid I cannot say what they would have accepted in that regard.

BY MR. PARKER:

Q. Will you turn to page eight of the brief. Look at the middle of the page. What is the source of the figures you give there in regard to the number of associations?

A. That information was furnished me by the Registrar of Associations in Manitoba.

Q. Under the Manitoba law all these associations are supposed to report annually? A. Yes.

Q. And these figures are taken from the registration? A. Yes.

Q. Not necessarily all active at the present time? A. Oh, yes; those are reporting societies.

Q. These are the reporting societies? A. Yes.

Q. Or are they societies which have taken out charters and which may or may not now be in business?

A. I don't think there are any inactive societies included in these figures.

Q. What makes you think so? What figures did you

ask for? A. The figures for organizations at present carrying on business.

Q. That was the information you sought? A. Yes.

Q. Following that, in the next paragraph you speak of the work they are doing including grocery and general stores and cooperative oil stations; and you say that the associations classified as miscellaneous provide various services: one manufactures leather goods, you say, and another operates two boarding houses for university students. Would you say that type of business came within the Rochdale principles? A. The manufacturing of leather goods?

Q. Yes. A. Oh, yes. Any form of manufacturing can come within the Rochdale principles.

Q. Manufacturing? A. Yes.

Q. On page nine you deal with the Manitoba legislations? A. Yes.

Q. As far back as 1916, the sections you quote there seem to be framed on the basis of these associations having profits. Is that the language the statute used?

A. They used the same language as was used by others.

Q. If it was the language of the legislature, on what principle do you say that they did not mean profits and that they should not use the word profits? Is it a correct designation of the thing they were talking about?

A. It is an incorrect designation.

Q. Why? A. Because of the contention made throughout that memorandum, that a cooperative society does not make profits. The only way you can make that clear, as a matter of fact, is to have a definition of profits.

Q. Apparently the kind of association which the legislature was authorizing to be set up -- it would

appear at any rate that they thought so -- was a type of association that would have profits. That is clear, is it not? A. I think that as a matter of fact, throughout the whole of this cooperative movement, in the earliest days at any rate and even today, people have referred to the surplus of a cooperative society as a profit. But it is incorrect.

Q. It is not proper? A. No; it is incorrect.

Q. You are not quite answering my question. Is it not apparent that in 1916, when the legislature was providing for the setting up of some type of association, they had in mind an association that would have profits?

A. I am not sure as a matter of fact that I can answer that question without asking some members of the legislature what they had in their minds when they used the word profit. They are using that word profit, as I have said, in the sense in which it has been used over and over again by people in reference to this movement.

Q. All I was suggesting was this, that the explanation may be that the type of association which is carrying on business now is not the type of association which the legislature had in mind, by reason of the fact that they had in mind an association having profits, whereas you claim to have an association which has no profits. Do you agree with that? A. I agree that the cooperative association has no profits.

Q. Of course, if you desire not to answer my question that is satisfactory to me. A. You are asking me to tell you what was in the minds of legislators and I do not know that.

Q. That is not what I asked you. However, if that is your understanding I will let it go at that.

THE CHAIRMAN: The witness will not have been the first person to stumble over that word.

BY MR. ARNASON:

Q. May I ask the witness a question. Mr. Hull, with reference to the word profits, about which we have heard a good deal in previous hearings, the suggestion was made that in so far as a cooperative did business with non-members any earnings arising from such business with non-members might be regarded as profits in the true sense and should therefore be subject to taxation. Would you care to indicate your views on that? A. I would agree with that -- that where a cooperative society does business with non-members the income is definitely profit. Where it does business with non-members, if the society agrees to return its surplus to all the people who do business with it regardless of whether they are members or not, the return to the non-member might not be termed profit.

THE CHAIRMAN: In regard to the reserves that are invested to produce income, would you call that profit?

THE WITNESS: Taxable profit, yes.

BY MR. ARNASON:

Q. One more question, Mr. Hull. Do you think that the position of the member who receives interest on his share capital is analogous to that of a bond holder who receives interest on his bonds, or do you think that it is analogous to that of the shareholder in a joint stock company who receives dividends on his shares? A. In the case of interest on capital in a cooperative society, he is in the same position as a bond holder, a man who has loaned his money for a purpose. He is not in the same position as the receiver of a dividend from a joint stock company's shares.

Q. You would not think, then, that the interest received by a shareholder in a cooperative should be subject to taxation in the hands of a cooperative, or would you think so? A. I would like to have that clearly defined. Do you mean by that, that if we have a corporation income tax the money which is to be paid out as interest on the capital should be taxed in the hands of the corporation?

Q. That is what I am asking, yes. A. I think it is taxable as a matter of fact in the hands of the individual and not in the hands of the corporation.

BY MR. PARKER:

Q. One more question with regard to page nine. I notice that in 1921 the legislation referred to was changed and the word profits was struck out and the word surplus substituted therefor. Do you know why that was done?

A. I think that change was made in deference to the change in terminology which was being adopted by the cooperatives then.

Q. That is what I wanted to bring to your attention. Do you know whether the cooperatives were active in promoting that change in the Act? A. I think the legislature just took it from the general usage of the word.

Q. But I am asking you if you know whether the associations asked for that amendment. A. I can't remember that far back; I don't know. I do not think the associations themselves asked for that amendment but I would not like to be sure on that point.

Q. On page eleven you lay down certain definitions. Are those your own or are they taken from somewhere else?

A. Those are my own.

Q. I refer particularly to the last three lines. You have tried to tell us what profit is. It is an

inducement held out for investment? A. Yes.

Q. Then later on in your brief--I cannot point to the exact spot at the moment--you refer to these surpluses or reserves or what not as investments. Is there not an inducement held out for investment or profit in the set-up of these organizations? Is not that one of the inducements? A. The inducement of a cooperative society is saving.

Q. Is it not investment? A. No, sir.

Q. At any point? A. Not at any point if it is a genuine cooperative society.

Q. You say: "Profit is the inducement held out for investment; continued and expanding production, and with it all employment and wages within the profit system depend upon continuing profits." Is it not the cardinal principle of cooperatives, every one of them, to expand and take in different processes and increased services and all the rest of it? A. To expand for the purpose of effecting saving, yes.

Q. To expand at any rate, to expand for the purpose of effecting saving, you say. A. It is not to expand simply for the sake of expanding.

Q. What is it for? A. For the purpose of effecting saving. That is the purpose in view.

Q. What is the difference between saving and profit? A. Do you want to enter into a discussion of that?

Q. It is not a question of discussion; the object is merely to have you explain the difference between savings and profit. A. A profit is the difference between cost and income which an organization sets out definitely to acquire; that is, it sets out definitely to maintain a difference between cost and income. That is what constit-

utes profit. A cooperative sets out with the express purpose of eliminating if possible that difference between cost and income and it is designed to give service at cost. Cooperatives may differ in the method by which they endeavour to give that service at cost, but that is their purpose.

Q. In other words, is it fair to put it this way? What we have been calling surplus, or savings, or profits, whatever is the correct term, depends on the purpose which those who operate had in mind when they set out to acquire these things. Is that your argument: that the nature of the money involved--we will avoid the words savings and profits--depends entirely on the purpose which those who carry on business had in mind in acquiring that money, whether savings or surplus or what not. Is that your position? A. Not in acquiring them. Only one institution sets out to acquire them, and that is the joint stock company, private enterprise. The other institution does not set out to acquire them.

Q. They just cannot help acquiring them? A. They do not acquire them.

Q. Well, who does? A. They are not acquired in a cooperative society.

Q. Well, whose are they, those savings? They must belong to someone. They exist. Whose are they?

A. They exist by reason of the particular method of doing business. That is to say, a cooperative society sets out by following the commercial practice of the community in which it is constituted, by maintaining a margin between the price which it charges and the cost. That margin is a safety device only. The cooperative was not established for the purpose of acquiring it, and it exists

simply for the purpose of enabling the cooperative to carry on its business in a sound and safe manner. At the end of the period the cooperative checks up on what it has been doing and returns to the members what they have paid in in excess of what was required to do the business.

Q. We will agree with you at the moment that they did not set out to acquire anything; but do they acquire anything, whether they intended to or not? A. They have these receipts in excess of doing business, which are contributions by the members for the purpose of enabling the cooperative to carry on its business safely.

Q. Now I want to ask you a question with reference to the third paragraph on page twelve. You are still speaking of the differences between joint stock companies and the associations. You say: "A joint stock company is organized to do business with the general public." Isn't that equally true of the cooperative association?

A. No, sir.

Q. Take an ordinary producer cooperative which is selling the farm products of the association. Could they exist twenty-four hours if they did not do business with the general public? A. The cooperative, I would say --

Q. Answer that question, please. A. It is an agency for the distribution of the produce of the farm.

Q. Do you think that is really an answer to my question? I would like you to answer my questions.

A. But I want to have it clear in my mind what it is you ask.

Q. If the question is not clear, ask me to repeat it. Look at your statement. You say: "A joint stock company is organized to do business with the general public." I agree with that; it is a perfectly proper statement; and

my question is, is it not equally true of a cooperative association, particularly of a producer cooperative, that they intend to do business with the general public inasmuch as they intend to sell the products of the members to the general public? Now, what is wrong with that proposition? A. They do sell the members' produce to the general public; that is correct.

Q. They could not exist without doing business with the general public? A. Selling to the general public, yes.

Q. Now come back to the original question. Is not the statement you make equally true concerning cooperatives as it is concerning joint stock companies? A. That they both do business with the general public?

Q. Yes. A. Yes.

THE CHAIRMAN: Is it not your contention that they do business with their members only -- the cooperatives?

THE WITNESS: Yes.

THE CHAIRMAN: That is your contention?

THE WITNESS: As a matter of fact, they are doing that business for their members -- either for or with their members. I have stated that they do business for or with their members.

BY MR. PARKER:

Q. When they are selling produce to the general public they are not doing business with their members?

A. For their members.

Q. Yes, but with whom? A. With the people who buy.

Q. That is, the general public? A. Yes.

Q. At the bottom of page twelve you say: "The patronage dividend is, from an accounting standpoint, simply the final reckoning between the cooperative and the member." What do you mean by that phrase, "from an account-

ing standpoint"? You cannot change the nature of these things by any juggling of accounts, can you? You would not suggest that? A. No; I am not suggesting anything of the sort.

Q. The patronage dividend is what it is irrespective of any set-up in accounting. You agree with that?

A. All right; yes.

Q. You go on to say: "It is the process of completing the business transactions over a given period and is not the distribution of a corporate income." I do not know just what that means. You started talking about net surplus and in that same paragraph you say: "The profits of a joint stock company are divided among the shareholders on a shareholding basis. The net surplus of a cooperative is divisible among the members in proportion to the amount each has contributed to the business of the society." The two methods of dividing are of the same kind. Isn't that so? One is according to the number of dollars and the other according to the number of members. Is not that the only difference? A. They are not the same kind of thing, no.

Q. On page 13 we have an interesting table to which I wish to call your attention. In parallel columns you have analysed what you take to be, if not all, at any rate the important characteristics of the joint stock corporation and the cooperative association respectively. You have set them side by side, I take it, for the purpose of bringing out the differences as you see them? A. That is the idea.

Q. Let us look at No. 2. In the case of the joint stock corporation you say: "Shareholding is anonymous, that is, shares are freely transferable and may be held

by anyone." As against that you say, referring to the co-operative: "Shares are identified by persons; the shareholder must be admitted to membership or transfers must be approved by the board of directors." You are reasonably familiar with the set-up of ordinary joint stock companies? A. Yes.

Q. Is it not just as true, with respect to joint stock companies as with respect to cooperatives, that shares are "identified by persons"? -- if I understand what you mean. A. The ordinary joint stock company?

Q. Yes. A. I would say no. I would say that in fact it is possible for shares to be held in joint stock corporations where a person is not known, the owner is not known, and even his location is unknown.

Q. By whom? A. By anyone who wants to know outside the corporation itself; and even within the corporation itself it is sometimes not known.

Q. There may be stupid corporations, careless ones; but as a rule aren't the shareholders known by the proper officials? A. The ownership in a joint stock corporation --

Q. I am not talking about ownership. If you do not care to talk about the same thing that I want to talk about, well and good; we won't waste time over it. But I wish you would talk about the same thing that I am discussing. A. All right.

Q. Well, you make the statement in reference to cooperatives that the shares are identified by persons. I do not know what that means. Will you tell me? What do you mean when you say that shares are identified by persons? A. A person in a cooperative society must be a member, a registered member of the society.

Q. Must not the shareholder in a joint stock corporation be identified just as much as the other? A. Not necessarily.

Q. The shareholder in a joint stock company must be admitted to membership. Can he become a shareholder in any other way? A. If he holds shares of the concern he may do what he likes with them.

Q. I am not talking about that but about the manner in which he gets in. You say that the shareholder in your case must be admitted to membership. Is it not equally true in the other case? A. But you do know who is holding the share.

Q. I am talking about how he gets in; he must be admitted in either case? A. Yes.

Q. There is no distinction there. Must he not be approved in each case by the board of directors?

A. That is correct.

Q. So that as regards No. 2, there is no difference at all except in someone's imagination. Let us go on to No. 3. A. The statement there is based on an analysis of corporations in the United States by Mears -- I have forgotten the name -- on the modern corporation.

Q. I am talking about No. 3. A. I am referring to statement No. 2, which you say is incorrect.

Q. I have finished with that and I am now asking you a question with reference to No. 3. If you don't want to answer it, say so. Are you prepared to talk about No. 3? A. Yes.

Q. You say, in reference to the corporation that it "is limited (as a general proposition) in the number of persons owning the business; that is, the shares are limited in number." You know very well that the shares in

the ordinary joint stock company, the number of the shares, can be increased as and when they see fit? A. Yes.

Q. With the aid of proper resolutions, the aid of the courts, and so on. You know that? A. Yes.

Q. And you know that the shares in a cooperative can be increased just as often as someone comes along and wants to get in? A. Yes.

Q. Then what is the fundamental difference? Both have as many shareholders as they want. A. The shares in a joint stock company are limited for the express purpose of maintaining scarcity value.

Q. And now No. 6. A. The smaller the number of people in any concern the more profit they get.

Q. I am speaking of No. 6. In the case of the corporation you say: "Surplus earnings, that is, profits, are the property of the corporation." As against that, in the case of the cooperative, you say: "Surplus belongs to the members, that is, the customers." Are members and customers the same thing in a cooperative? A. In the kind of cooperative I am talking about.

Q. But there are a great many cooperatives in which that is not so? A. Are you referring to cooperatives?

Q. I am asking you about No. 6. In the case of the cooperative, you say, "surplus belongs to the members, that is, the customers." I am asking you now if the members of a cooperative and the customers are always the same thing? A. Yes, members and customers.

Q. They are always the same? A. Yes.

Q. But you are overlooking the fact that a cooperative may do business with non-members. A. Pardon me. In the case of a cooperative, a producer's organization that is selling, the customers are still members. They

are doing that business for the members and they are the customers.

Q. Suppose there is a consumer cooperative downtown and I go to buy a package of tobacco. I have never been there before and I haven't the slightest desire to become a member, but I go and buy tobacco. Do I become a member?

A. No.

Q. But I am a customer? A. That is correct.

Q. Then a customer and a member are not necessarily the same? A. In the kind of cooperative I am talking about in this brief. I stated distinctly I was talking about cooperatives which do business with their members only.

Q. Give me a sample of a cooperative that does business with its members only. Name me one if you can.

A. There are numberless cooperatives--you can find them scattered throughout the country--which do business with their members only.

Q. I ask you to identify one so that we can see whether it measures up to your qualifications. Name one.

A. I don't know one.

BY MR. ARNASON:

Q. Would you not say a credit union was a sample of that?

A. I was not thinking about credit unions.

BY MR. PARKER:

Q. I was not either. Now let us take No. 11. As to the corporation you say: "Business is done for the express purpose of realizing the trading profit which becomes the property of the corporation." And in the case of the cooperative you say: "The business is organized and conducted as a mutual service for the benefit of the members and not for the benefit of the cooperative as a legal

entity." There is a legal entity, is there not? A. Yes.

Q. Let me put it this way. Is it not true that co-operatives could not function, could not exist, were it not for the fact that they are legal entities, corporate bodies?

A. Pardon me. There are cooperative societies which are not incorporated bodies. The cooperatives of Denmark are not incorporated bodies.

Q. I am talking about those in Manitoba. A. We could have an unincorporated cooperative society in this country if the cooperatives chose to do it in that way.

Q. Put it this way, then. Having chosen to do it in the way in which they have done, they have chosen to become incorporated, and that is the foundation stone of their existence -- their charter of incorporation? A. No. I would qualify that. The foundation of their existence, as a matter of fact, is their desire and the will of the members, the people who may become associated in that cooperative.

BY MR. ELLIOTT:

Q. It has been argued before us, Mr. Hull, that there are no differences between a cooperative and a joint stock company; or, alternatively, that if there are differences those differences are not such as would affect the ability of the two types of concerns to pay taxes. You have pointed out a number of differences between the joint stock corporation and the cooperative. How do you consider that those differences affect the ability of the two types of concern to pay taxes? What is the significance of those differences in determining whether the cooperative as compared with the joint stock corporation should or should not pay taxes? I am asking what you consider to be the significance of those differences in relation to the

problem of taxation. A. May I answer that question in my own way?

Q. That is the way I want you to answer it. A. As I have pointed out in this brief, what constitutes a profit is the difference between cost and selling price, and in the capitalist system these organizations are formed for the express purpose of acquiring and securing that difference; in other words, the purpose is to maintain the difference for the benefit of the shareholders of the organization. I have tried to show in this memorandum that that is not the purpose of the cooperative institution, that the intention of the cooperative is, as a matter of fact, to do away with that difference between cost and selling price -- in fact, to do away with profit altogether. Consequently, to the extent that the cooperatives succeed in doing away with profit they do away with that which is being taxed. There is no basis for the assessment of income tax on a cooperative if it has no income; and, in point of fact, it has not. Now you may ask me this question: But what if it did have an income of its own? In that case my answer would be that the legislature itself, Parliament, ought to decide whether in that event it was taxable or not. In that regard account must be taken of the purpose, the intention of a cooperative. Have you in mind, for example, the social value of the institution as set out, let us say, in the Hot Springs food conference declaration? That is up to the legislature. I have not attempted in this brief to defend any income of a cooperative which is definitely the property of the cooperative. That is a matter for the legislature to decide and for this commission to make recommendations upon as it deems fit.

Q. So that the significance to you of these

differences is this, that the cooperative can and does operate differently from a joint stock company because its purpose is different from that of the joint stock company? A. That is correct.

BY MR. PARKER:

Q. Let me call your attention to one more item in this enumeration of differences. Look at No. 9. Referring to the joint stock company you say: "The joint stock company does business in a general way with the public; the buyers and the sellers (the parties to the business transactions) are distinct and different." I agree with that. The other, that is to say, the cooperative, "is organized to do business with its members; buyers and sellers constitute one body and are identical." Now that is just not so when you stop to think of it, and that is all that is wrong with it. A. In the case of the producer society which is selling the goods of its members; correct.

Q. And is it not equally true in the case of the consumer for the reason that, before it can sell to its members, it has to go to the public and purchase? A. It has to purchase.

Q. Is it not therefore equally true with the consumers as with the producers? A. But in the case of the cooperative, once the goods are acquired --

Q. He has to buy them before he can sell them to the members, has he not? The goods do not simply rain down on him for nothing? A. The cooperative is formed for the purpose of giving services or obtaining goods for its members. It is not formed for the purpose of doing business with the general public.

Q. It is formed for the purpose of getting goods for

the members, but it has to go to the public to buy those goods? A. It has to go where it can get the goods.

Q. And buy them? A. Yes.

Q. In the charter of practically every association with which you are familiar in this province, in addition to having the power granted by the legislature to supply services, and all that sort of thing, they have the express power to buy and sell. That is set out in the legislation and in the memorandum of every association incorporated under the Act. Why has such care been taken to give these associations the power to buy and sell, as well as all the other powers that have been granted them, if it was never intended that they should use any of them? That may be a difficult question for you to answer and if you prefer not to answer it I will not press it. A. Do we not come back to the question as to what the purpose of the organization is?

MR. PARKER; That is all I have to ask.

BY MR. THORVALDSON:

Q. I have heard your brief as read by Mr. Ransom and there was no reference in it to the tax problem. Have you given consideration to the problem of where the required taxes will come from with an increase in the volume of trade done by cooperatives? A. Yes sir; oh, yes. I have thought about that quite often. I am of the opinion that the taxes will come from the selfsame source from which they come at the present day. That is to say, taxes will originate in the energy, the ability, the labour and the skill of the people of Canada. All taxes arise out of the business of the people themselves, out of their labour, their work, their organization and so on, and that source of taxation would remain even if

all the business in the country were done by cooperative societies.

Q. I think that is a correct answer. Now I want to ask you this question: If all the business of the country were done by cooperative societies would you still affirm that the cooperative societies should remain untaxed?

A. That is a question indeed. I cannot look so far into the future as to envisage a situation in which all business is done by cooperatives. But the question as to how the taxes of the country will be raised will be a matter for the government of the time, and I do not see how anyone can sit down today and say how taxes will be raised then. I do not know.

Q. Would you agree with me that it is reasonable to expect that if the business of the country should all be done by cooperatives there would have to be some system of taxation of or through the cooperatives? A. No; I do not even agree with that. I do not know.

Q. In your brief you refer to the trading profits of the consumer cooperative; that is, you refer to the savings of the members of the consumer cooperative not being taxable. Do you remember that? A. Yes.

Q. You affirm that to be the case? A. You mean the patronage dividend received?

Q. You say that in the case of the consumer cooperative the saving effected, that is the patronage dividend received by the member of the consumer cooperative, is not taxable in the hands of the consumer. I mean, you maintain that? A. No, pardon me; I don't think I maintain that. What I do say is that the patronage dividend in the hands of the recipient may or may not be taxable. If it is being used by him for the acquisition of income it may be

taxable.

Q. That is the point. You maintain that in one case it is not taxable, but obviously the patronage dividend received by the individual from the producer cooperative is taxable because it enters into the producer's trading account. Isn't that right? A. Yes.

Q. That being so, is it not a fact that when you come to the exemption of the dividend paid to the member of a consumer cooperative that must have the effect of increasing the tax paid by the producer who is essentially, in this country, the farmer? Isn't that correct? In other words, there is a shifting of the tax burden from the consumer on to the producer, who is the farmer. Will you answer that question, please? A. I don't quite get the question. How does it start out again?

Q. You maintain that the dividend paid to the member of the consumer cooperative is not taxable. I mean, that is the theory that I have been listening to for a long time. I think it is the cooperative theory, because you maintain that it is a saving, do you not? A. Provided it is not being used by him for the acquisition of income, yes.

Q. You maintain that the consumer patronage dividend is not taxable, do you not? A. Yes.

Q. Will you also admit that the patronage dividend received from the producer cooperative, being an increase in that person's income, is taxable? A. A reduction of his expenses.

Q. Well, a reduction of his expenses. That is taxable? A. Yes.

Q. Therefore when you have one section of the community, namely the consumers, not paying taxes will not that

have the effect of increasing the taxes that must be paid by the producer? A. I don't get that question at all. If we have a set of people, consumers, who are not paying taxes? Is that what you are asking?

Q. Yes. A. But they are paying taxes.

Q. But not on that particular trading? A. Probably they have already paid taxes out of their income. This is not an addition to their income.

Q. But it is true that they are not paying taxes on that particular trading, is it not? A. I don't get it. The point of the question appears to me to be this. You are assuming there, are you not, that everybody ought to go and buy his goods, household or whatever it may be, from an organization which is making a profit that can be taxed?

Q. I am not assuming anything. A. If you are not assuming that, how can you make out that a man who gets his goods at cost should be taxed because he has got them that way?

Q. You are familiar with the Rochdale principles. Is it a Rochdale principle, or is it in accordance with the Rochdale principles, for a cooperative to pass a resolution of its directors making everyone who deals with the cooperative a member automatically? Is that a sound Rochdale principle? A. I don't think so.

Q. The reason I ask the question is this. You made this reply to Mr. Parker a little while ago in respect of trading with the general public, that the cooperative is not formed for the purpose of doing business with the general public. You made that statement? A. Yes.

Q. That is true. The cooperative is not meant for the purpose of doing business with the general public.

That is right? A. Yes.

Q. Then when you have a situation such as this, where a cooperative passes a resolution of the board of directors making anyone who trades with it, namely anyone who ships cream to it, let us say, automatically a member is that in accordance with cooperative principles? A. Do they not as a general rule insist that there be an application for membership signed?

Q. No, just exactly as I put it to you. It is not a matter of any application but simply a resolution of the board of directors saying, in effect, "If you ship cream to us, the Northern Alberta Dairy Pool, you are automatically a member of the Northern Alberta Dairy Pool."

A. That is when a man ships cream it makes him a member of the association?

THE CHAIRMAN: An associate member.

BY MR. THORVALDSON:

Q. He is made an associate member. Is that a sound Rochdale principle? A. If that man knows it to be certain that he becomes a member of the organization, I do not see anything wrong with it, although I would like a better system than that for getting members just the same. I do not say it is wrong.

MR. SCARTH: The question is hardly fair to Mr. Hull. We have a statute in which that very point is set out. He ships and there is a surplus and it is credited to him and he becomes a member. If the assumption is correct that he knows the law, when he ships he knows what the natural effect of his shipping is.

THE CHAIRMAN: The difficulty we have had elsewhere is, does he know?

MR. SCARTH: In fact?

THE CHAIRMAN: Yes. Does the customer who ships know at that moment that he is becoming a member?

MR. SCARTH: Even though our statute so provides?

THE CHAIRMAN: Yes. I assume we are supposed to know the statutes.

MR. SCARTH: If it is our statute.

THE CHAIRMAN: That concluded the case.

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MR. PARKER: The next brief comes from Manitoba Co-operative Wholesale Limited and affiliated local associations and will be presented by Mr. E. B. Chown.

E. B. CHOWN

Manager,
Manitoba Co-operative Wholesale Limited,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. What is your position? A. Manager.

Q. How long have you been Manager? A. Since the spring of 1941.

Q. What were you engaged in prior to that?

A. I was Manager of Manitoba Honey Producers.

Q. How long have you been associated in all with co-operative associations? A. Since the spring of 1939.

Q. Prior to that, what was your occupation?

A. I was with an oil company before that.

Q. By whom was this brief prepared? A. By myself, but I was assisted by others.

Q. Who? A. The solicitor and directors and our accountant.

Q. That is, the Directors of Manitoba Co-operative Wholesale? A. Yes.

Q. How many are there? A. Seven.

Q. How many members has the Wholesale? A. We have no direct members; it is member associations.

Q. Your members are locals? A. Yes.

Q. How many? A. About ninety.

Q. How many of those locals were consulted as to the stand which you would take and the type of brief that would be submitted? A. In the short time we had we could not actually consult anyone.

Q. I merely want to find out with what voice you speak. You are speaking, as it were, with the voice of your directors, the solicitor and the accountant? A. Yes.

Q. There was no time to call in everybody?
A. Exactly.

Q. And this brief has the approval of the directors?
A. Yes.

Q. If there are any parts that you think you can omit without reading, without impairing the value of the brief, you may omit them. A. It was my intention to read the nine pages of the brief itself. It will not take long.

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"Origin, Development and Operation of
Consumer Cooperation in Manitoba"

"The following material is presented on behalf of some ninety consumer cooperative associations in Manitoba, and their central organization, Manitoba Co-operative Wholesale Limited.

1. Origin and History of Consumer
Cooperation in Manitoba

"The first evidence of combined buying efforts by the farmers of Manitoba came shortly after the turn of this century. With the object of trying to reduce the costs of the products they had to buy, the farmers in many districts clubbed together to buy goods in large quantities. The

items handled were mostly flour, sugar, apples, twine and coal. The business was handled very informally with one member of the community volunteering to collect the money and the farmers picking up the goods directly from the freight cars.

"Such activities clearly demonstrated to the farmers that they could reduce their living costs and cost of operating their farms by pooling their buying power with their neighbours. Furthermore, they discovered that the difference in price was far greater than could be reasonably justified between the cost of handling in carload lots as against retail prices charged in their neighbourhood.

"Feeling the need of a more permanent organization than the informal buying clubs, the farmers became interested in the cooperative approach and during the early twenties the first consumer cooperatives appeared in Manitoba.

"At about the same time largescale tractor farming caused the farmers to become very interested in the costs of tractor fuels and motor oils. While carrying on the former activities of the buying clubs, these new cooperatives mainly concerned themselves with the distribution of petroleum. In order to provide the necessary tanks, equipment, barrels, etc., the farmers invested their funds in these cooperatives, which quickly demonstrated the soundness of the idea by returning substantial savings. By 1927 there were about five or six such petroleum cooperatives in the province.

"The interest of the farmers, both in cooperatives and in their older buying clubs brought about the feeling that something should be done to organize and consolidate the work. Furthermore, many buying clubs were

having difficulty in securing proper merchandise at reasonable prices. As a result a motion was passed at the Annual Meeting of 'United Farmers of Manitoba' in 1927, recommending that a central Co-operative Wholesale should be set up to supply the needs and to coordinate the work of the cooperatives and the buying clubs.

"Manitoba Co-operative Wholesale Limited was formed in 1927 and within a very few years, most of the old buying clubs became incorporated as local cooperative associations. These new cooperatives were able to raise sufficient share capital for entrance into the petroleum distribution field. Some of them were able to spare some capital to assist the Wholesale, which henceforward acted as a purchasing agent for the various cooperatives.

"It is perhaps interesting to note at this point that each local association is a separately incorporated body and operates independently of the Wholesale. Although the local associations own and control the Wholesale, they are under no obligation to buy any or all of their goods from their own Wholesale. To this day, some member associations purchase goods from other sources, that could be supplied by their own wholesale.

"Throughout the thirties the number of local associations gradually grew, although, due to depressed agricultural prices, it was very difficult to raise the required capital funds. The number of local associations distributing petroleum products reached about forty in 1940, when the regulations of the Oil Controller prohibited the opening of new gasoline distribution points.

"Almost without exception, these local associations have returned very worthwhile savings to the farmers, not only with regard to tractor fuels, their basic commodity,

but also on such other products as coal, twine, fertilizer, tires, batteries, etc.

"More recently the farmers' interest has turned to the general store field. Some stores had been commenced many years ago, but, for the most part, had died out. Around 1937 many districts with successful oil cooperatives felt convinced that there should be a cooperative approach to the problem of distributing groceries, dry goods and hardware. This interest has spread quite rapidly and today there are about forty-five cooperative general stores in Manitoba.

"The development and progress of Manitoba co-operative Wholesale Limited very closely parallels that of the local member associations. When it was first formed, the Wholesale was mainly concerned with securing supplies of petroleum products, twine and coal. In the case of petroleum, the Wholesale was able to develop new sources of supply and to buy better quality products at a lower price. In the case of coal, it was found that many coal suppliers who had refused to sell to local associations, gladly did business through the Wholesale. In the case of twine, the combined buying power of the yearly co-operatives and buying clubs, was sufficient to gain a substantial price reduction. As time went on, the Wholesale was able to supply the locals with more lines of goods and effect savings on their behalf. Most manufacturers, after a time, seemed pleased to recognize the cooperative wholesale as a legitimate distributor that should enjoy the same prices as extended to other wholesalers. The Wholesale does not handle dry goods or groceries in spite of the fact that the newer store co-operatives are mainly concerned with the distribution

of these lines. The passing of the savings back to the member associations, by the Wholesale, allowed Manitoba farmers to enjoy still greater cooperative benefits. At all times the Wholesale has endeavoured to serve only its affiliated locals. An example of this is the fact that in 1944 less than one-quarter of one per cent of the total sales were made to non-members.

"Besides such commercial activities the Wholesale has assisted the local cooperative associations in many other ways. Since its inception the Wholesale has always maintained a competent field organization which helps new groups to organize and assists the local boards and managers in developing sound operating techniques.

"The local associations have invariably shown gains in both membership and sales throughout good years and bad. At the present time it is estimated that about twenty thousand farmers and their families look to consumer cooperatives for supplies of some type. There is no question that the savings effected by their cooperative efforts have greatly assisted all these people, particularly when the farmers' margins between operating costs and returns for agricultural produce have been very limited over the past years.

2. Incorporation and Capital Stock Structure

(a) Local Associations

"Up to 1932 the local associations obtained their charters under The Co-operative Associations Act (1925). After that date charters were taken out according to the provisions of Part VI, The Companies Act (1932).

"Most local associations have authorized capital stock of from \$10,000 to \$50,000 and paid-up capital stock

ranging from \$3,000 to \$15,000.

"Practically all local associations use the model by-laws prepared by the Registrar of cooperatives, copy of which is appended hereto marked 'A'.

"From these by-laws it will be noted that the affairs of the associations are controlled by a board of directors which is elected annually from the membership on the basis of 'one member - one vote'.

"The by-laws also contain provisions for the payment of interest on share capital. Up until 1940 it was usual for such interest rate to be from 3 per cent to 5 per cent but after 1940, except for one or two isolated instances, all local associations have discontinued interest payments on capital.

(b) Manitoba Co-operative Wholesale Limited

"This company was incorporated on November 17, 1927, with authorized capital of \$100,000 of which there was paid up as at December 31, 1943, the sum of \$55,370.

"A copy of the Memorandum of Association of the Wholesale is attached herewith and marked 'B'. We quote below from said memorandum, paragraph (a) clause 4:

'the objects for which this association is to be formed are:

(a) to serve as purchasing agent on a non-profit basis for the cooperative purchasing associations operating on a non-profit basis and incorporated under "The Co-operative Associations Act" and for the members of such associations.'

"A copy of the by-laws of Manitoba Co-operative Wholesale Limited is attached herewith and marked 'C'.

"The operations of the Wholesale are controlled by a board of seven directors elected from the general member-

ship of the locals at the annual meeting. Each member local association, irrespective of size, is entitled to one voting delegate at that meeting. By this means the local associations are able to effectively control the operations and policy of the Wholesale.

"The by-laws of the Wholesale provide for the payment of interest on capital. From 1931 to 1935, 5 per cent was paid and the rate was then reduced to 3 per cent and in 1940 the payment of interest on capital stock was entirely discontinued.

3. Method of Operation and Distribution of Surplus

(a) Local Associations

"All local associations sell their merchandise at the regular retail prices established in their community. This policy is maintained except in cases where said prices are deemed exorbitant, when the local associations may set a lower price. The local associations buy their goods at what is generally called the 'dealer' price.

"Once a year a complete financial report is presented to the members at the annual meeting and the surplus on the year's operations is handled in accordance with the following provisions of the by-laws:

'1. The surplus funds arising from the business of an association after proper provision for depreciation shall be disposed of by the board of directors as follows:

(a) By setting aside not less than 10 per cent of said surpluses as a reserve fund until the reserve fund is equal to 30 per cent of the paid up capital of the association.

(b) By paying interest at ---- per cent per annum on the paid up capital of the association.

'(c) By dividing the remainder amongst the members in proportion to the volume of business which they have done through the association.'

"As mentioned previously, most associations have discontinued the practice of paying interest as provided in clause (b) above. Likewise, many have discontinued the practice of setting up a statutory reserve. It is standard practice that every cent of the surplus must be clearly disposed of in accordance with the above by-law.

"The majority of associations find that their working capital requirements make it difficult to pay out immediately these funds and as a result they have adopted a scheme known as the Revolving Surplus Plan. Each member is advised in writing of his share of each year's surplus. At the annual meeting of the association, the shareholders decide on the amount of dividends that can be retired in cash, always following the practice of retiring in full those dividends that have been longest outstanding. Besides protecting the interests of each member in each year, the plan has the very desirable feature of varying the investment of each member, over and above his capital stock, in accordance with his use of the association's facilities.

"Naturally, the number of years' dividends outstanding varies with the financial requirements of each association, being all the way from one year up to seven years, with the average being about two to three years.

"To illustrate the operation of the Revolving Surplus Plan and the complete disbursement of all cooperative savings by the local association, the operating statements of a typical association, namely Minto United Farmers Co-operative Association Limited, have been summarized

since its inception in 1928 until 1943. A copy of this summary will be filed with the Commission and marked 'E'. Appended herewith is the balance sheet of Minto United Farmers Co-operative Association Limited as at November 30, 1943, marked "G".

(b) Manitoba Co-operative Wholesale Limited

"The Wholesale sells goods to the local associations at the regular dealer price or at the same price as these associations could buy from other wholesalers. The co-operative Wholesale purchases such goods from manufacturers at what is termed the 'jobber' or distributor price. The margin between the two price structures allows the Wholesale to pay its operating expenses and have a surplus left over.

"The plan used by the Wholesale with regard to distribution of surplus is identical to the practice followed by the local associations. The Wholesale has not paid interest on capital stock since 1940 and has made no further additions to statutory reserve since that year. Hence the entire amount of the surplus in each year is allocated to each member association in proportion to its purchases.

"The additional working capital requirements of the Wholesale are secured mostly through the operations of the Wholesale's Revolving Surplus Plan. In the same manner as local associations, the delegates at the Wholesale annual meeting decide each year how much of the oldest dividends should be retired.

"At the last annual meeting of the association held in 1944, the delegates authorized the payment of the balance of the 1941 dividends, which left only two years'

dividends outstanding, namely, 1942 and 1943. The whole-sale carefully advises each association in writing of the amount of such dividends it has earned in each year.

"The principle of operating on a non-profit basis and returning all the savings to the member associations is well illustrated in the composite statement of the whole-sale's operations, which is appended hereto, marked 'G'. Also attached is the balance sheet of Manitoba Co-operative Wholesale Limited as at December 31, 1943 and marked 'H'.

4. General

"In comparison to the total amount of business transacted in the province, the amount carried on by cooperatives is comparatively small, yet it has a very far-reaching effect. Only through cooperatives can the consumers have a definite say as to the price and quality of the merchandise they purchase. There is no question that the competition of cooperatives has exercised a very effective control on the general price structure on many lines of products, thereby benefitting all consumers. Perhaps more important is the fact that the cooperatives form the only real bar to monopolistic expansion of 'big business' which frequently follows the practice of absorbing or taking over any competitor. Cooperatives can never be controlled by anyone except the ultimate consumer.

"The consumers of Manitoba, and particularly the farmers, who form almost the entire membership of the co-operatives, will view with great apprehension any moves that would hamper or restrict the development of co-operative enterprise for it is only by cooperative action that they are able to gain some measure of control over the prices they have to pay for goods and supplies.

"In a basically agricultural part of the country, such as western Canada, it is most essential that every effort be made to keep operating costs on the farm at the lowest possible level, to enable the farmer to survive the countless hazards he has to continually face. We cannot overlook the fact that by reducing the farmer's operating costs, his income is automatically increased and therefore his contribution to the national treasury in the form of income taxes will be likewise increased. This is particularly true when we consider that farmers are subject to excess profits tax of 100 per cent on all income over \$5,000."

Documents filed with brief:

- SCHEDULE "A" - Model by-laws prepared by the Registrar of Cooperatives.
- SCHEDULE "B" - Copy of the Memorandum of Association.
- SCHEDULE "C" - Copy of the by-laws of Manitoba Co-operative Wholesale Limited.
- SCHEDULE "E" - Combined statement of operating results of the United Farmers Co-operative Association covering period 1928 to 1943
- SCHEDULE "F" - Balance sheet of Minto United Farmers Co-operation Association Limited
- SCHEDULE "G" - Composite statement of Wholesale's operations.
- SCHEDULE "H" - Balance sheet of Manitoba Co-operative Wholesale Limited.

BY MR. PARKER:

Q. I notice, attached to your brief, some statements of one of your member associations? A. Yes.

Q. And also a brief statement concerning the Wholesale? A. Yes.

Q. In addition to the statements that are attached to the brief you have now filed schedule E, which is a combined statement of operating results of the United Farmers Co-operative Association Limited covering that period? A. 1928 to 1943.

Q. That is one of the member associations of the Wholesale? A. Yes.

Q. What type of institution is it? A. Their business is distributing petroleum products.

Q. Could you furnish us later with three or four similar statements representing all the different types of concerns which form the Wholesale -- a similar composite statement? A. We could do that. It would take some time to compile it. Do you suggest four typical ones?

Q. If you confer with the accountant, Mr. Ronald, during the luncheon hour he will advise you as to what we need. A. Yes.

THE CHAIRMAN: Is the statement filed now schedule E?

THE WITNESS: Yes.

THE CHAIRMAN: Referred to on page 7 of the brief?

THE WITNESS: Yes. It should be attached to the brief now.

BY MR. PARKER:

Q. In reference to the Wholesale, could you produce a statement, which Mr. Ronald will discuss with you, in that respect? A. Yes. We have already fairly complete figures on the Wholesale which I will be glad to go over

with him.

Q. Is there a form of agreement of any kind setting forth the terms and conditions under which your members become members of the Wholesale? A. In order to become a member of the Wholesale -- I am sorry we haven't a copy here -- there is a formal application which they sign and send in and we endeavour to make sure they are what we term true cooperatives. That application is placed before the board for final approval.

Q. Does that application set out the terms under which they come in, certain things that they must do to become members? A. I cannot answer exactly, but to the best of my memory it is the general rules and regulations without specifically identifying anything.

Q. You state that your members may or may not purchase from the Wholesale? A. Yes.

Q. Is there any obligation on the part of your members to purchase any portion of their goods from you?

A. No obligation at all.

Q. There would be no point in their becoming members unless they did? A. That is right. There would be no point.

Q. As a matter of fact, in practice they do?

A. I wish I could say yes, but there are some who for some reason or other decide to buy elsewhere and we have no way of enforcing that they buy from us, nor do we attempt to.

Q. In the earnings of the Wholesale, your surplus ^{or} ~~of~~ whatever you call it, disposition is made first by paying operating expenses? A. Yes.

Q. And secondly by setting aside statutory reserves?

A. In the past, yes; since 1940 there has not been any.

Q. Are they fixed by statute? Is there a maximum?

A. The provincial law states that it shall be only up to 30 per cent of paid up capital.

Q. How much annually? A. Not exceeding 10 per cent.

Q. You can set aside any amount up to 10 per cent until you have accumulated 30 per cent?

THE CHAIRMAN: Is it not at least 10 per cent?

THE WITNESS: It is a sum equal to 10 per cent.

THE CHAIRMAN: At least?

THE WITNESS: I am not sure, but I rather think it is.

BY MR. PARKER:

Q. Having set aside that amount, whatever it is, what is done with the balance? A. Allocated to the member associations.

Q. What do you mean by allocated? A. Set up to their credit on our books.

Q. Not paid to them? A. No.

Q. Do you pay annually anything to them, or is it in accordance with what the directors may decide? A. Every year in our history there have been substantial amounts paid out, and it is not by the directors but by the shareholders at the annual meeting deciding how much of the oldest dividends will be retired.

Q. The shareholders being the representatives of the different locals? A. Yes.

Q. Tell me why you made the change in 1940. You have been paying out everything since 1940? A. No. You must have misunderstood me. We have always been paying something on the oldest dividends. It was before my time that started.

Q. You said, up until 1940. A. The change in 1940

was in the setting up of statutory reserves which was discontinued.

Q. You have not set up reserves since? A. No.

Q. Why? A. The by-laws call for the setting up of reserves equal to 30 per cent of the paid up capital and that point was reached in 1940.

Q. But you are free to set up in excess of that? You are not restricted? A. We have always understood we were.

Q. That was the reason -- you understood that was all the reserve you should hold? A. Yes.

Q. Since then, that being all the reserve you could hold, how is it that you do not pay the members all the balance instead of allocating it? A. We need additional working capital; that is why we only allocate it.

Q. Reserves are used for working capital too?

A. Which reserves?

Q. The statutory reserve? A. Yes.

Q. So that in essence there is no difference between the statutory reserve and the amount allocated and not paid? A. I don't know what you mean when you say "in essence", but we consider it quite different.

Q. But you use it for that same purpose, working capital? A. Yes.

Q. To that extent then, let us say? A. Yes.

Q. In schedule 4, you deal with the assets of the association. Bearing in mind what I have been speaking about, do you keep them separately, these amounts that are allocated -- the allocated amounts as distinct from the statutory reserve? A. Yes. They are separate in our accounts.

Q. You keep them in separate investment portfolios?

A. No.

Q. They are all merged? A. Yes.

Q. And at the present time they are all represented by physical assets plus certain securities? A. Yes.

Q. In your statement you have cash on hand and in banks \$50,000? A. Yes.

Q. Does that represent allocated amounts or reserves?
A. It is hard to say. Everything is merged in the general operating funds.

Q. And the same with Victory Bonds? A. Yes.

Q. You have \$100,000 in Victory Bonds. What do you do with the interest on those bonds? Does it form part of the reserves? A. The interest is put into the general revenue of the company. If I may anticipate a question which you may ask, part of that interest received in Victory Bonds is offset by interest we pay out on borrowings against Victory Bonds during certain times of the year.

Q. That is only a matter of bookkeeping; you can set it against anything you like. A. The income there is not all net.

Q. You have to pay expenses partly out of that, but the point is that you do get interest on Victory Bonds?
A. Yes.

Q. What I want to know is whether that is added to the statutory reserves or whether it is found in the allocated amounts? A. It is found in the allocated amounts, the general revenue of the company.

BY MR. ARNASON:

Q. Do you allocate your statutory reserves? A. I shall have to answer that question in this way. In the Wholesale our statutory reserve has not been allocated but the majority of the local associations have gone

back and allocated out their statutory reserves.

Q. Would it be practicable to allocate the statutory reserves in the Wholesale? A. Yes.

Q. Suppose the Wholesale had a loss, do you think you could charge that loss back to the share that each member of the association had in the allocated statutory reserve? A. My personal opinion is that we could. We have never had a loss and therefore we have really not come up against that problem, but it is a good question. We have always been of the opinion that we could charge it back against the allocated reserve, in other words, bring it back to a cost basis again.

BY MR. PARKER:

Q. You are now operating on what you call a revolving surplus plan? A. Yes.

Q. You have heard the same thing referred to as the revolving door plan? A. Yes; it is the same principle.

Q. Your period is what -- two years? A. We do not set any specific time. Are you speaking of the Wholesale?

Q. I am speaking of retail and Wholesale.

A. When the delegates come in we merely gauge the amount we will pay out having regard to the financial requirements of the company, and the shareholders approve. There is no specific period.

Q. So that there is nothing to indicate when the amount held back this year will be paid? A. Nothing definite.

Q. You may hold it one or two years or any number of years as the directors may decide? A. No; the shareholders decide. There is this, however, that there is definite indication that always the oldest amount will be paid out

Q. That is your practice? A. Yes.

Q. Just now the business is pretty good? A. Yes.

Q. And the surplus is probably greater now, in the last two or three years, than earlier? A. Yes.

Q. And assuming that in the future after the war there is a recession and the yearly earnings are much less than they are now -- A. That is quite possible.

Q. --there will come a time when, in order to operate the revolving plan, you will have to pay, say, in 1947 the amount set aside, let us say, in 1944, and you will find it difficult to meet it? A. No, sir; we won't.

Q. Why? A. Because we have no specific time in which to pay it off. Let us take as an example 1948, when these bad times that you anticipate roll around and we have a greatly reduced income. We have no definite year in which to pay it out.

Q. You will not be faced with the difficulty that will come from those who have a definite year to take care of?

A. No.

Q. That makes the member's interest that much more indefinite and uncertain. He never knows. He may never get it back, on that theory? A. If he never gets it back --

Q. Then it is gone? A. No.

Q. What happens to it? A. After all, it will be his problem if he does not get it back. He decides the matter along with the other shareholders.

Q. Suppose he says, when bad times come, "I have stored up there so many dollars which I put in when times were good. I wish I had received it as we went along, but at any rate I want it now." He just simply cannot get it? A. I won't say yes or no to that because we have

never had anyone ask for it.

Q. He would be governed by the majority at any rate?

A. Yes. I might go a step further. I believe that if some specific organization was in a bad financial way and made proper application the money might be paid out. But that has never come up. It could be done, I imagine.

Q. That is speculative, I dare say. Now, on page two of your brief, in the middle of the page you say: "These new cooperatives were able to raise sufficient share capital for entrance into the petroleum distribution field." Is that your member association that you are referring to there, your individual members? A. Members of the association. They raised the money.

Q. How did they get it? A. That would be their own money.

Q. Was it their own money? Was it the local members' own money that bought shares in the Wholesale?

A. Who else's would it be?

Q. You say that the local association, using their own money, purchased shares in the Wholesale. That is the way you understand it? A. Yes.

Q. I merely call attention to the fact that the theory seems to be that that money, that surplus which the local clubs had, does not belong to the association but belongs to the individual members on the same basis that your surplus belongs to the individual member associations?

A. I don't follow you. Your question was, where would the money come from to buy the Wholesale shares?

Q. Yes. A. To a degree it came from the members.

Q. On the theory that the local association has no money but that the money belongs to the members?

A. The local association has money from share capital,

some of which could be reinvested in the Wholesale.

Q. Come now to page three, where you say: "In the case of petroleum, the Wholesale was able to develop new sources of supply and to buy better quality products at a lower price." How in the world did you do that better than anyone else? A. So far as that particular statement is concerned, I may say that I was not on the scene; it was in the early days.

Q. But you have made that statement. What do you base it on? A. On statements given me by older members of the organization.

Q. They did not go into details as to how they worked it out? A. The story given me was this --

Q. It is secondhand. I do not think we will put it on the record. Further down in the same paragraph you say: "In the case of coal, it was found that many coal suppliers who had refused to sell to local associations gladly did business through the Wholesale." Is there any evidence you can give that that happened at all, that ordinary dealers refused to sell to the local associations?

A. If I had time I could put a good many witnesses on the stand to prove that, but I cannot personally vouch for it because it was before my time.

Q. They would not sell at any price, or was it a case of not being able to come to terms? A. Definitely, they would not sell at any price.

Q. Let us come to page five. You say that up to 1940 you paid interest on share capital and then stopped. If it was good business to pay until 1940, why has it not been good business since? A. The reason we stopped was that the Income Tax Department of the Dominion Government seemed to take the view at that time that the payment of

interest was improper.

Q. Improper? A. Yes, for cooperatives.

Q. Only in relation to taxation? A. Perhaps. The statement was made that if we paid interest we would probably be thrown out of the protection of section 4 (p).

Q. Your policy was dictated by the incidence of the income tax? A. Yes, that is right.

BY MR. NADEAU:

Q. Did you start in 1940 redeeming that share capital on which no interest is paid now? A. No. The wholesalers made no redemptions.

Q. And what about the locals? A. The local associations, prior to that time even, were up against the problem where frequently a farmer who had once been a big producer and bought a lot of share capital had retired to town and he used the facilities of the cooperative very little, and they felt that the revolving surplus plan, by holding back certain dividends, equalized the investment of each member according to his use of the facilities; and many of the local associations today follow the practice of retiring capital stock down to one nominal share, the balance of the investment being made up by money held back in the revolving fund mainly for the purpose of equalizing investment according to the use of facilities.

Q. Does the Wholesale contemplate doing the same thing as a matter of policy? A. I could not say. I might say, however, that we have partially followed the plan of the locals in the wholesale.

BY MR. PARKER:

Q. That statement on page five refers to the locals?
A. Yes.

Q. Near the bottom of page five you say: "The by-laws

of the Wholesale provide for the payment of interest on capital. From 1931 to 1935 5 per cent was paid and the rate was then reduced to 3 per cent and in 1940 the payment of interest on capital stock was entirely discontinued."

I suppose that was for the same reason? A. Yes.

Q. Does that seem a logical reason why these people with invested share capital should refuse to pay interest, just to save income tax? I do not follow the reasoning of that. A. We felt it was equally illogical of the Income Tax Department to take that stand. We actually have a case where they have assessed us on the basis that we paid interest.

BY MR. ARNASON:

Q. Would you say that the policy of the Income Tax Department was the only reason which made you discontinue the payment of interest on share capital, or was there a change in the financing of these cooperative associations that coincided with that? A. That is quite correct. The revolving fund plan was coming in at that time, and one thing that came up that many cooperatives did not like was that interest rates were getting lower and lower and we had investors, people putting in money solely for interest returns, which was against our idea. We wanted members and users, and by the elimination of interest we got what we wanted. It is a funny thing to say, but we were apt to get undesirable members.

BY MR. NADEAU:

Q. Do you pay interest on deferred dividends now?

A. No.

Q. Your locals? A. No.

BY MR. PARKER:

Q. On page five you carefully set out the objects for

which the association is formed. You call attention to so-called agencies. I suppose it was purely accidental that you did not put in the subsequent clauses that give you power to buy and sell on exactly the same terms as other companies? A. They are all here. They are rather long and I thought these were the only ones that really counted.

Q. The charter is very wide? A. Yes.

Q. At the bottom of that page six you say: "Besides protecting the interests of each member in each year, the plan has the very desirable feature of varying the investment of each member." Is it an investment? What you regard as a holdback -- is that an investment? A. That is a difficult question. We consider that each member has to put up money to operate the company. Part of the money he puts up in the form of capital stock and part in the form of deferred dividends.

Q. Or loans? A. You can call it loans.

Q. Surely these men are not so charitable -- well, I don't mean charitable -- at any rate they are not the kind of people who want to lend money for years and years without interest? It does not make sense to me. I do not know if it does to you and to them. A. I don't think the word charitable is right.

Q. I withdrew that word. A. I think they have sufficient interest to feel that if the cooperatives are doing sufficient good in the community a small matter like interest is not important.

Q. Instead of getting interest as such on share capital and on deferred dividends they get something of monetary value which is even more valuable to them? A. In proportion to what they buy.

Q. I don't care whether it is in proportion, but

they get it back? A. Yes.

Q. It is a fallacy to say that they do not get interest. Although they do not get it in one form they get it in another in money's worth added on to something else?

A. I don't think I would admit that. The factor of purchasing enters there. They could sell out that investment and not purchase from the organization and therefore would get nothing back.

Q. Can you see any logical reason why a man would want to buy share capital and go without interest on it when the company could very well pay interest on it? He is willing to leave earnings with you for several years without interest. Would he do so if he were not sure that through some other channel he would get something which to him would be worth in dollars and cents more than that interest which he was forgoing? A. I don't think I can deny that, although I don't like to say definitely that the interest just comes in another way. Naturally they leave it there because they are interested in their co-operative.

Q. Are they interested in it for any reason in the world except that they get more money out of it that way than in any other way? A. I imagine that is a partial answer, yes.

Q. No one suggests that these cooperatives are any less interested in money, in so far as it gets into their own pockets, than anyone else? A. Yes, but to get the money he has to support his cooperative.

Q. Of course he has to; I agree with that. A question now with regard to the by-laws of the association -- and I am only going to deal with this for the purpose of having on the record a note that can be looked at later.

The by-laws that are attached to this brief have undergone many amendments? A. The Wholesale by-laws; that is right.

Q. You started out with a certain set of by-laws and year after year important amendments have been made?

A. Yes.

Q. Can you tell me in a word what was the meat of these amendments? A. I could not tell you in a word.

Q. Or in a dozen words. A. I would have to review them, really, and I have not done so for a while.

Q. What I suggest to you is that they were made for a purpose and constituted a considerable departure from the original methods of handling earnings, a departure from the method employed in connection with the original set-up; and, secondly, that these amendments were passed by reason of the incidence, or the anticipated incidence, of income tax? A. I am afraid I would not agree with you there. You put me in a difficult position because I have not got them at my finger tips.

Q. My purpose is to have something on the record so that the Commissioners can look into it themselves. If you do not care to answer the question, very well.

A. I want to have it on the record that they were not all made for the purpose you suggest, or even most of them, to avoid the incidence of the income tax.

Q. Do you think the question of income tax entered into the matter at all? Have you any knowledge of that? I don't want you to guess. A. I am afraid I cannot say definitely. I would have to read them.

BY MR. NADEAU:

Q. Will you please tell me the exact relationship between the sales agency and your wholesale cooperative?

A. The agency went broke in 1935, as some other cooperatives did. They owed the Wholesale a certain amount of money and we took over their assets and operated them until this year. We operated them on a cooperative basis whereby the earnings were turned back to the organization and this year we turned back everything.

Q. Are all the directors of the Wholesale members of the local associations? A. Yes. To be a director one must qualify first by being a member of the association.

Q. I suppose you send out a notice of your annual meeting? A. Yes.

Q. Would it be possible for us to have the notice of the last annual meeting? A. Yes.

Q. Will you give us a copy of it? A. Yes. As a matter of fact, one has just gone out for the meeting that comes up in about two weeks.

Q. Would it be possible also for you to give us the by-laws of two or three of your local associations?

A. I have given you already the typical by-laws.

BY MR. PARKER:

Q. Of the ninety odd member associations of the Wholesale, do you personally know the history of them and how many of them in the last few years have supplanted so-called private stores in Manitoba? A. I may be out a little bit, and the word "supplant" presents some difficulty. Actually last year there were twelve cooperative stores taken over; at least, twelve stores became cooperative.

Q. Twelve private stores became cooperative?
A. Yes.

Q. Is there a tendency to do that? This Commission has heard evidence in other provinces that there was a

growing tendency for private businesses either to sell out or to reorganize in some way and switch over to the cooperatives. Is that true in Manitoba, to your knowledge?

A. To a degree, yes. I don't think, however, from what I have read, that it is as marked as in other provinces; and as regards selling out, I have no instances of switching around.

Q. There are purchases? A. Yes. In many cases a man wishes to retire, or he may wish to sell for some other reason.

Q. And they think that the cooperative, by reason of their method of doing business, is in a position to pay a better price than another party? A. That would be a difficult question to answer but I can partially answer it this way. In our Wholesale we employ a man to value these places and so we do not overpay for them. We have one or two instances.

Q. Is it not true, from the very nature of things, that the cooperative, not paying income tax, is in a position to pay a better price than the joint stock company which has to pay? A. Very few stores in the country are owned by joint stock companies and therefore there is no difference between the average store and the cooperative.

BY MR. ELLIOTT:

Q. What about the excess profits tax? A. Most stores have individual proprietors in the country with personal tax. I am afraid I am getting out of my depth.

BY MR. ARNASON:

Q. To your knowledge, where privately owned stores have been purchased by cooperatives, have such purchases been financed by new capital subscribed by members of the cooperatives concerned? A. Invariably, yes.

Q. You do not know of any exceptions to that?

A. No. When you say new capital you mean --

Q. Did the members put up additional capital to finance the purchase? A. In Manitoba practically all stores are started by new associations, but we have two exceptions to that where the existing oil cooperative decided to form a grocery department and they raised additional capital.

BY MR. ELLIOTT:

Q. On page four you say that your association has always maintained a competent field organization which helps you to organize the local boards and assists in developing sound operating techniques. What sort of operating techniques have you in mind? Can you indicate three or four of the most important? A. One of our biggest troubles with country stores is proper accounting controls, and when a new group is organizing we go and assist them, helping them to do that, to keep proper records, and so on. We do other things, but that is the main one.

Q. Do you give advice about non-member business?

A. Yes.

Q. What sort of advice? A. We point out to them that they should sign up everyone. There is a certain amount of passing trade, and the sort of advice we give them is that very close track should be kept of this problem, and when non-members come in all clerks should be equipped to sign them up and tell them the story, and if it is properly done there is no difficulty signing up new members.

Q. What about credit? Is that a point on which you give advice? A. Yes. I am very pleased to report that the majority of stores operate on a cash basis. It is

not 100 per cent but is very close to it.

Q. On page six you say: "This policy is maintained except in cases where said prices are deemed exorbitant." Are their existing prices sometimes deemed exorbitant?

A. Yes.

Q. What happens then? Can you give me an example of what happens when they are deemed exorbitant?

A. Perhaps one example would be to tell a story. It happened not long ago. There is a certain association of ours to whom we sell a lot of salt, cattle salt having a big sale in the country, and this organization wrote to me and stated that they were amazed, in figuring up, how much money they were making on salt. I believe it was around 40 per cent and they asked us what we figured they should make. We wrote back and told them and they lowered their price. I don't know whether other merchants did so or not.

Q. You do not know about that? A. No.

Q. You say that only through cooperatives can consumers have a definite say as to price and quality of the merchandise they purchase. What exactly do you mean by that? A. To my way of thinking, the consumer cooperative is the only kind of company that is in direct touch with the actual consumer.

Q. You do not mean that in all cases consumers go and order precisely the kind and quality of goods they want?

A. No. But in the ordinary company the only say that the consumer has is in the fact that the company tries to please him owing to pressure of competition. In our organization, on the other hand, the consumers themselves run and control the company.

Q. Are you referring to their votes? A. Yes, and

the board of directors. You cannot actually consult everyone, but it does work out rather well.

BY MR. VAUGHAN:

Q. I cannot understand the position you take. You will correct me if I am wrong, but I do not think that the customers in the cooperative decide what the manager of the store is to buy for them. Does not the manager buy according to his own judgment, having knowledge generally of what his customers want? A. I think that when you get down to individual items that is so; but as a general policy it is rather different. Mr. Parker asked me a question as to why some cooperatives did not buy from the Wholesale. In the case of some organizations, the board of directors set a policy and there may be some line that we sell which they personally do not feel is right for their particular community and they buy outside, or it might be the reverse.

Q. I was thinking of the individual consumers.

A. Yes.

Q. Is it possible, speaking of individual stores, for the consumers ahead of time to state what they want?

A. No. Of course, in an ordinary company the customer has no choice but he can go to another store; but that is not always convenient.

Q. But does not the same position obtain in some other store? The manager buys according to his knowledge of what the customers want; he does not find out from the individual customer. He knows from experience, and from his training in such things, what articles are in vogue, what the customers are likely to want, and he buys for the customers such merchandise as he thinks will sell. Is there any difference? Does not the manager in

the cooperative do the same? He anticipates the wants of his customers and he goes ahead and buys accordingly?

A. Let me take you a step further beyond the store. Many products today -- and we feel that this is an important phase of cooperation -- are put out under brands that are no doubt very good, but the customer has no say in the brand. Under the cooperative method we put out our own feeds of very fine quality and it is directed and controlled by the people who buy. There is no object in putting any inferior materials into it or deteriorating it.

Q. The point in my mind is whether the customers actually tell the manager what to buy or whether the manager uses his own judgment. A. The manager definitely has to use his own judgment, because he could not ask each individual customer specifically what his wants are. You are narrowing the question down.

Q. I was comparing your store with any other store in the same town. In each case the manager determines, from his experience, what the customers will want and he goes ahead and buys on that basis. Now, in your schedule G there is a heading: "Moneys paid for Patronage Distribution". There is an item, gasoline and oil \$445,000 and other products \$241,000, or a total of \$686,000. It would appear that the most profitable part of the operations is in the handling of gasoline and oil?

A. I would not say it is more profitable than the rest, but it is the largest part of the business.

Q. There is \$485,000 set up with respect to gasoline and oil and that is two-thirds of the whole thing.

A. Yes.

Q. Can you explain why there is such an advantage in buying gasoline and oil? Do you buy from regular independ-

ent dealers or from a cooperative refinery, or how do you make your purchases? A. In Manitoba our petroleum products are bought from other refiners and we step into what is known as the jobber market. In other words we enjoy the jobber price.

Q. You say that you will give us the notice of your 1943 annual meeting? A. Yes.

Q. Can we have the statement for the year 1944? A. Yes. The only reason we did not include it here was that it was not actually audited, but it will be in the next few days.

Q. The surplus for 1945 was \$105,000. Do you remember what the surplus is for 1944? A. About \$140,000.

BY MR. THORVALDSON:

Q. Do you file income tax returns? A. Yes.

Q. Every year? A. Yes.

Q. You have never been assessed for income tax during the last few years? A. No. The Wholesale has never been assessed to my knowledge.

Q. To clear up a problem that arose yesterday, do you know under what provision you claim your exemption -- under 4 (p) or 4 (g) or under the general principle of mutual trading? A. I could not answer that.

Q. I noticed you said that you stopped paying interest on share capital in 1940 because you had been informed that if you continued to pay interest you would be thrown out of the protection of 4 (p). I was wondering what you claimed exemption under. Is it your understanding that your exemption is under 4 (p)? A. I could not say.

Q. On page five you refer to the objects for which this association was formed and you mention (a) "to serve as purchasing agent on a non-profit basis for the cooperative

purchasing associations operating on a non-profit basis and incorporated under The Cooperative Associations Act and for the members of such associations." A. Yes.

Q. Actually you do not serve as agent. You act as buyers and sellers? A. To be frank, I do not know what the difference is between buyer and seller and purchasing agent.

Q. Have you contracts with them? A. No.

Q. Showing that you buy goods for them on commission? A. No.

Q. You buy goods and sell them to your stores? A. Yes.

Q. So that from that point of view there is no difference between your method of operation and that of any other wholesaler? A. That is right.

Q. At the bottom of page eight you say: "The consumers of Manitoba, and particularly the farmers, who form almost the entire membership of the cooperatives will view with great apprehension any moves that would hamper or restrict the development of cooperative enterprise for it is only by cooperative action that they are able to gain some measure of control over the prices they have to pay for goods and supplies." What do you mean by "moves" there? Are you referring to taxation? A. There may be many different kinds of moves.

Q. Is the question of taxation the move you have in mind? A. I would not mind admitting that.

Q. In connection with the word "development", would you mind if that were changed to "expansion"? It would mean about the same? A. I would not admit that.

Q. You realize that the tax is a bit of a handicap to the development of other business too? You would

admit that the payment of income tax by other businesses constitutes a handicap? If they did not have to pay taxes they could develop faster than they do? A. Or they could lower prices.

Q. They could develop faster too? A. I presume they could.

Q. You agree that you would not be able to develop as fast as you do if you had to pay taxes? A. I would not even answer yes to that.

Q. You view with apprehension, though, any taxation moves? You say that in your brief? A. Yes; it might slow us down a bit, but I think our movement would still go ahead.

Q. You agree that the cooperative movement would still go ahead if they paid taxes. You know that as a matter of practice the cooperative movement in England kept on developing after it was taxed from 1933?

A. Of course, they did not pay tax on patronage dividends.

Q. But they pay taxes on surplus? A. They are allowed patronage dividends and, if they are not, it would not affect their development.

Q. But that did not slow up the movement. The fact that they were taxed on surpluses did not slow up the development of cooperatives in that country? A. Because they did not tax them on patronage dividends.

Q. Of course, you realize that in England other companies are on the same basis. There is no double taxation in England. A. I understand that.

BY MR. SCARTH:

Q. Do you understand English law? A. Not very thoroughly.

Q. One other point, and that is the question of

policy. Do you attend the meetings of the members in the country? A. Not all of them, but many of them.

Q. Are there discussions as to procedure and the conduct of store business at the annual meetings? A. Yes.

Q. Is there a good attendance of members? A. Yes, exceptionally fine.

Q. All take an interest in it? A. Not all, but the majority.

BY MR. THORVALDSON:

Q. One more question. You said that you are concerned about the taxation of patronage dividends. You do not want your patronage dividends taxed? A. No, naturally not.

Q. But you do not pay patronage dividends? A. What makes you think that?

Q. Do you pay one at the end of every year? You have a revolving fund plan where you pay a dividend two or three years after it is earned? A. We consider the allocation a payment.

Q. But actually you do not pay? A. That seems like a trick question. I do not follow you, but I know that we do pay.

Q. Because you consider the allocation a payment? A. I do, and the members do.

BY MR. SCARTH:

Q. Having allocated it, when do you pay it? A. When the members decide.

Q. How do you pay it? A. In cash.

Q. From what source -- later on? A. Yes.

Q. I want to make it clear to the commission that it is allocated one year and out of future savings they pay? A. Yes.

THE CHAIRMAN: Does that conclude the case?

MR. SCARTH: There is a brief to be submitted by Mr. W. J. Macdonald, of the firm of Miller, Macdonald and Company, Auditors, who has drawn up an over-all statement showing what has been done over a number of years, from year to year, with regard to the surplus -- what has been done with that, how much has been kept in reserve, how it has been paid out and so on. If the Commission would be interested in it, it would give a picture of Manitoba from the standpoint of what has happened to the reserves, how they have been allocated, what proportion remains unallocated and what proportion has been paid. I would ask Mr. Macdonald to present it.

THE CHAIRMAN: In connection with this particular case?

MR. SCARTH: In connection with the general brief.

W. J. MACDONALD

Chartered Accountant,
Messrs. Miller, Macdonald & Co.
having been duly sworn
testified as follows.

BY MR. SCARTH:

Q. You are a chartered accountant, duly qualified?

A. Yes.

Q. Practising in Manitoba? A. Yes.

Q. How long? A. I have been a chartered accountant for thirty years, practising twenty-five.

Q. The other five years you were overseas? A. Yes.

Q. You audit for practically all the cooperatives in Manitoba? A. That is rather too broad a statement. We have audited for a large number of the local associations. In the poultry we have been auditors from 1926, livestock from the inception, dairies 1942, 1943 and 1944.

Q. How do you verify the figures where you are not auditors? A. I have examined the financial statements as certified by the auditors.

Q. So that the material you have has all been based on your check? A. Yes. The underlying material is the annual audited financial statements.

Q. To the best of your knowledge it is correct?
A. Yes.

THE CHAIRMAN: I understand that your statement is to be submitted in the form of a brief.

THE WITNESS: Yes.

THE CHAIRMAN: Do you propose to read it?

THE WITNESS: If I may.

"My firm has been instructed by the cooperatives in the province to assist where possible in presentations to the Royal Commission. To that end it has reviewed the annual operating results where a presentation is being made, from inception of operations in each case.

"The firm has been auditor for cooperatives in Manitoba since 1924.

"All the matter herein submitted is from the viewpoint of the practising accountant conversant with cooperative procedures.

"Attached hereto is a tabulation in index form of the financial results of the operations of these cooperatives analyzed into the following main factors:

A "The monies retained by the cooperative from the initial transaction with the patron in the main service provided.

"In a consumer cooperative this will be the difference between the (notional) price charged to the patron for the goods and the price paid by the cooperative for

the same goods, the latter, of course, adjusted for opening and closing inventories of stock-in-trade.

"In the case of a producer cooperative this will represent the difference between the price realized on the sale of the product and the initial (notional) payment made to the member when he delivered the produce to the cooperative, or in that fiscal year.

"In the case of a service cooperative, e.g. where only a brokerage or other similar charge is made to the member, this factor will be the gross revenue from such service charge.

- B. "Additional monies coming into the hands of the cooperative in the course of performing services for the patron.

"In this are included such monies as come into the hands of the cooperative incidental to the main operation, e.g. cleaning charges in the case of the grain cooperatives, custom processing charges in the case of the honey cooperatives, feed and bedding rebates in the case of livestock, etc.

- C. "(Adjusted figure of A after adding B)
- D. "Annual operating expenses
- E. "The result of deducting D from C, being the gross amount remaining in the hands of the cooperative as a result of transactions with patrons for the year before post year end adjustments, before statutory reserves, interest on capital or year end rebates made on a patronage basis.
- F. "Reserves called for by the Provincial Companies Act or otherwise by legislation.
- G. "Interest paid on capital stock
- K. "Post year end adjustments to the foregoing, normally authorized by annual meetings after the

financial statements have been completed.

L. "The adjusted balance for allocation

M. "Allocation of L.

"This has been divided as follows:

1. "Actually paid to members, analyzed as to the time which elapsed after the close of the fiscal year until the monies were paid out.

2. "Allocated for payment to members but yet unpaid as at December 31st, 1944.

(This represents the revolving capital found in nearly all cooperatives in the province).

3. "Payments made or allocated to non-members (in Manitoba most cooperatives pay to members only and therefore no amounts appear in the tabulation under this heading).

N. "Unallocated (free) surplus.

"In the case of the poultry and honey cooperatives, pooling payments made to producers prior to the close of the fiscal year are in A, not in M.

"The statement submitted follows this pattern.

"At this point it is perhaps advisable to give the factual background as to tax policy in Manitoba, as follows:-

"On May 23rd, 1940, the Inspector of Taxation at Winnipeg wrote to this office as follows:-

'To qualify for the provisions provided for in Section 4, subsection (p), however, the following requirements are necessary:

(1) "It must be a cooperative company or association of the class enumerated.

(2) "It must be organized on a cooperative basis.

(3) "It must be operated on a cooperative basis.

- (4) "It must be operated for the purpose of marketing the products of the members or shareholders, or for the purpose of purchasing supplies and equipment for the use of its members.
- (5) "It must not market the produce of, or purchase supplies for, non-members, to a greater extent than 20 per cent of the value of the produce or supplies, marketed or purchased for the members or shareholders.

'In respect to No. 1, the classes enumerated are clearly primary producers and the general words "and other like cooperative companies and associations", which follow the enumeration according to the ejusdem generis rule would extend the exemption to similar groups only and not to every other company, no matter how cooperatively organized or operated; for example, it would extend to apiarists, hog raisers, etc., but it would not extend to an association of civil servants or other urban dwellers operating a bakery or grocery store. Any company incorporated under any cooperative legislation where the requirements of the statute have been fully carried out, would no doubt be considered as organized on a cooperative basis.'

"In practical application the 20 per cent rule was the only one which was invoked.

"As late as September 1940 a cooperative which had paid in error received a refund through this office in the amount of some \$60 in spite of the fact that it had paid interest on capital stock and had carried all of the rest of its surplus for the year in question (unallocated) to reserve account, the statutory requirement being of

course 10 per cent of the total. A memorandum as to the position in this regard is attached hereto - Reference No. 1.

"On January 20, 1941, the income of the Minto United Farmers Co-operative Association Limited was taxed for the years 1936, 1937, 1938 and 1939. The assessments were appealed and the appeal was disallowed in the following terms:

'The Honourable the Minister of National Revenue having duly considered the facts as set forth in the Notice of Appeal and matters thereto relating, hereby affirms the said Assessments on the grounds: that the taxpayer is not exempt under the provisions of section 4(p) of the Act, in that it has paid dividends to its shareholders on the basis of the amount invested by them and hence it has not turned over to its members the supplies and equipment purchased at cost plus necessary expenses and reserves as provided by paragraph (p) of the said section 4, the payment of such dividend to its shareholders not being a necessary expense or reserve within the meaning of the said paragraph;

'that by its own admission the taxpayer in the year 1938 carried on business with non-members in excess of 20 per centum of the value of the supplies and equipment purchased for members;

'that as the taxpayer does not fall within the exemption provided in section 4 (p);

'it is therefore subject to tax as an ordinary corporation as provided by section 9 (2) of the Act, and therefore by reasons of the provisions of the said sections 4 (p) and other provisions of the Income War

Tax Act in that respect made and provided, the Assessments are affirmed as being properly levied.'

"In the year 1938 the income available for tax was exceeded by patronage dividend paid so that this point is actually irrelevant. In end result the assessment of the Minto Cooperative disallowed exemption under section 4 (p) of the Act, taxed monies set aside to pay interest, also taxed monies out of which statutory reserve was provided, but allowed patronage dividend as a deductible expense. The Sperling assessment followed similar lines.

(Assessments received recently have also disallowed patronage dividends as a deduction from taxable income.)

"No notification of the changed attitude of the taxing authorities as between that revealed in the letter of May 23, 1940, and in the refund made in September 1940, and that taken in the assessments made January 20, 1941, has yet been given to cooperatives generally in Manitoba, the knowledge thereof having been confined to the officials of the cooperatives which have been taxed, and to their legal and accounting advisors. No decision has yet been handed down in either of these two cases although every endeavour has been made to facilitate such action."

BY MR. ARNASON:

Q. In one case, in these statements, you show no statutory reserve after 1922? A. No.

Q. But your legislation requires the maintenance of a statutory reserve? A. Yes.

Q. Is the equivalent of that statutory reserve in the revolving surplus? A. Yes, and the revolving surplus in these cases is not allowed to go below the statutory reserve. Frankly, the statutory reserve in Manitoba

is not as satisfactory as yours in Saskatchewan because of the fact that, I should say, from 60 to 70 per cent at least of the cooperatives in Manitoba are organized without capital stock and therefore when the reserve is on the basis of capital stock there is an unfair discrimination between the two, which should not exist. I have been inclined to view with a certain amount of skepticism the provisions of the Manitoba Companies Act because they are obviously discriminatory.

THE CHAIRMAN: As far as I am concerned, I should like to have time to look this tabular statement over. It presents a mass of figures which cannot be grasped without study.

BY MR. ARNASON:

Q. I am interested in the statement that appears on page four of your brief: "Assessments received recently have also disallowed patronage dividends as a deduction from taxable income." Was that in the past year?

A. Yes.

Q. Did that ruling apply to cooperatives generally?

A. I have no information on that point, sir.

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The Commission adjourned until 2.30 p.m.

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The Commission resumed at 2.30 p.m.

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MR. PARKER: The first submission this afternoon is from the Livestock Industry.

A. McCALLISTER

President,
Manitoba Co-operative
Livestock Producers Limited,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. What position do you hold in the Livestock Industry of Manitoba? A. I am President of the Manitoba co-operative Livestock Producers Limited.

Q. What is the unit on behalf of whom you are appearing -- the association or the limited company, or what?

A. The Manitoba Co-operative Livestock Association.

Q. Is that incorporated under the Companies Act?

A. I think it is.

Q. How long have you been associated with the livestock business? A. With the cooperatives?

Q. Yes. A. Ten years.

Q. Did you prepare this brief yourself? A. Not exactly, no. It has been prepared under the supervision of the board, with our manager as well in consultation.

Q. How many constitute the board? A. There are seven of us. Not all, but most of them have been consulted in connection with it.

Q. Will you read the brief?

THE WITNESS: (Reads):

"SUMMARY OF BRIEF PREPARED
by
THE LIVESTOCK INDUSTRY OF MANITOBA

"The Cooperative movement in the Livestock Industry had its origin in the dissatisfaction of the farmer with

the existing marketing system. The Cooperative movement started with the creation of isolated locals. By 1927 there were forty-two. In that year The Manitoba Co-operative Livestock Producers Limited was formed. It was a union of local cooperatives and was to be a central selling agent for all locals and generally to further the interest of the industry.

"In 1932 'The Manitoba Livestock Producers Limited' entered into an agreement with 'The Saskatchewan Livestock Producers Co-operative' to form a joint selling agency, subsequently known as 'Canadian Livestock Co-operative (Western) Limited.'

"This last mentioned cooperative does all the selling and remits to the producer the amounts received, less the commission charge allowed by the rules of The Winnipeg Livestock Exchange.

"At the end of the financial year of the Cooperative the surplus remaining after all expenses have been paid is disposed of as follows:

'Ten per cent paid into a reserve until a fund of \$10,000 has been created, and the remainder of ninety per cent paid to each of the provincial central cooperatives forthwith; the remaining ten per cent is paid to the provincial cooperative at a fixed time in the future.'

"The Manitoba Co-operative Livestock Producers Limited distributes the surplus received amongst its members, in accordance with the volume of shipment. It also acts as an educator to the individual producer and is a spokesman for the industry.

"Strictly speaking there are no comparable businesses with the cooperative. Livestock brokers do work which is

similar to one phase of the cooperative's work. Inasmuch as the commission charge is the same by both, they are on a basis of equality.

"This cooperative submits that it should not be subject to income tax. Its purposes is to work on a non-profit basis. It submits it has been working on that basis. If it should be found that this were not the case, the method of doing business would have to be changed to conform to its charter and the intent of its members to make certain that there would be no profit. In that case there could be no income tax.

.....

"Submission of the Cooperatives related
to the Livestock Industry of Manitoba
to the Royal Commission on Cooperative
Associations and their relation to the
Income Tax Acts

The Need - Dissatisfaction with Marketing Agencies

"No human institution is created and grows unless there is a need on the part of some person or persons. What then was the need which occasioned the creation of cooperatives in the livestock industry in Manitoba? Before the growth of cooperatives each individual farmer dealt with the problem of marketing his own livestock. The farmer waited until a drover would come into his district. Perhaps only one drover, would cover the district. Then the farmer, an amateur, matched wits with the professional stock dealer. The farmer tried to get the highest possible price for his animal, the drover tried to make the best bargain he could for his own benefit. Naturally, the drover, with his superior knowledge of weight, and quality of the animal and the state of the market had the advantage. Usually the drovers bought out-

right. Occasionally they could be persuaded to sell on commission for the farmers but not willingly. The charges made for delivering the animal to the packing house, that is freight, drover's charge, brokerage charge, were excessive by the standard now established. When the beast arrived at the stockyards, sometimes it was sold three or four times amongst the brokers before it was sold to the packing house, which would be the ultimate sale. The farmer felt that in marketing either way the cards were stacked against him.

"The Need of an Authoritative Body
to Speak for the Industry"

"Although marketing was an important factor there were other aims in forming cooperatives. Each cooperative acted as a forum for the local livestock producers in which they might exchange views and share their respective experiences and knowledge. Again, they felt that the formation of a large body of livestock producers could make its influence felt in respect of legislation affecting their industry much more readily than many individual producers acting separately. As a unit it was much easier to initiate reforms, deal with problems of transportation and marketing than as individuals. Through a livestock producers organization they could much more readily improve their types of livestock and methods of feeding and handling.

"Commencement of Movement."

"The movement towards cooperatives commenced with the formation of local associations widely scattered throughout the province. By 1927 there were forty-two local cooperatives, with a membership of 14,000 livestock producers. All were non-profit organizations and had no

share capital. One of the members would take charge of a shipment of cattle and deliver it to a livestock broker at Winnipeg's stockyards, where it was sold in the usual way by the broker and the returns made to the local co-operatives. It is to be noted that there were many local associations which carried out the same functions as the local co-operatives, but which never became incorporated. The above mentioned forty-two locals were incorporated under 'The Co-operative Associations Act' of Manitoba. Subsequently, the Manitoba Act respecting co-operatives required yearly returns to be made to the government and a fee of \$2 paid. Many of these cooperative charters have now been cancelled for failure to make returns and pay the annual fee. These provisions also prevented the incorporation of many new locals and there are, at the present time, many associations unincorporated or whose existence under the Co-operative Act has been ended by cancellation.

"Creation of a Central Cooperative.

The Manitoba Co-operative Livestock Producers Limited

"By 1927 the opinion amongst the local co-operatives had become widespread that a selling agent of their own was required at the Winnipeg stockyards. Accordingly in 1927 'The Manitoba Co-operative Livestock Producers Limited' was incorporated under 'The Co-operative Associations Act', 1925, S.M. Ch. 8. The first object was to 'serve as a selling agency on a non-profit basis for Livestock Producers, Co-operative Marketing Associations, operating on a non-profit basis'. The thought of its organizers, however, was that it should be much more than a selling organization. Other objects were 'to be an agricultural organization instituted for the purpose of mutual help ---

to improve methods; reduce costs of marketing livestock; to reduce speculation, manipulation waste and all unnecessary transactions of such marketing, to increase consumption, build up new markets, develop new uses for livestock and the products thereof and so on.' It also had power to enter into contracts or agreements with other similar associations from Saskatchewan and Alberta for co-operative marketing. It is to be noted that although at first the Manitoba Co-operative Livestock Producers Limited was to act as selling agent for cooperative associations only, subsequently the charter was amended to provide that they should act as a selling agency on a non-profit basis for Livestock Producers' Marketing Associations operating on a non-profit basis, whether incorporated or unincorporated, for the members of such associations, and for other persons. The practice now is that each individual shipper is a member of The Manitoba Co-operative Livestock Producers Limited. The membership fee is One Dollar and there is no share capital. The Co-operative meets annually in Brandon where a board of seven directors is elected for the ensuing year. The business of the Co-operative is carried on by those directors. The province is divided into seven districts, the same as is done by the Manitoba Wheat Pool. Each district elects ten delegates to the annual meeting. A director is elected from each of the seven districts. It is the duty of the director for each district to be responsible for organization of all matters relating to the welfare of the cooperative or the livestock industry in his district.

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"Inter-Provincial Selling Agency Created.
The Canadian Livestock Co-operative (Western) Limited.

"Shortly after the incorporation of the Manitoba co-operative Livestock Producers Limited, it took advantage of the beforementioned power in its charter and made an agreement with the Saskatchewan Provincial Livestock co-operative by which they had one selling agency for both cooperatives. Accordingly a new cooperative was formed for the purpose. This cooperative was known as 'Canadian Livestock Co-operative (Western)Limited' and was incorporated under Part 6 of 'The Companies Act' of the Province of Manitoba in 1932, now Part 7, Chap. 36, R.S.M. 1940. It was without share capital and was on a non-profit basis. The first object was 'to serve as a selling agency on a non-profit basis for Livestock Producers Co-operative Marketing Associations operating on a non-profit basis, and for the members of such associations and for other persons and associations.' It has its head office at the city of St. Boniface, in the province of Manitoba. The members of this cooperative are the seven directors of The Manitoba Co-operative Livestock Producers Limited; the seven directors of Saskatchewan Livestock Producers Co-operative; and two others, namely, the two last named co-operative associations. From this membership a board of directors is appointed yearly, consisting of three of the Manitoba members and three of the Saskatchewan members.

"Method of Carrying on Business:

"We deal only with what happens in Manitoba. Canadian Livestock Co-operative (Western) Limited sells only for Manitoba Co-operative Livestock Producers Limited and its members."

We sell for Saskatchewan as well. Continuing:

"In practice the local cooperative or an individual member may consign livestock to the selling agent. The initial returns are made direct to the producer. There is deducted from the sale price received, freight, feeding charges and brokerage commission charges on the basis set by the Winnipeg Livestock Exchange. By agreement made with its constituent members, the Manitoba Co-operative and the Saskatchewan Co-operative, the selling agency is obligated to sell at cost. Any surplus over and above expense is to be returned to the two member cooperatives. The division is made according to the volume of business originating in each province. At the end of the year the surplus is ascertained, 90 per cent is paid in cash and the remaining 10 per cent is paid at a definite fixed time in the future. The Canadian Livestock Co-operative does not buy, but is an agent only. It therefore, does not interfere with the drovers business of buying direct from the farmer hereinbefore referred to. It has taken over that branch of the business which was unpopular with the drover, that is, handling the farmers cattle on an agency basis. It sells only for members of The Manitoba Co-operative Livestock Producers Limited, but they in turn are not obligated to sell their livestock through the Manitoba Co-operative or its selling agency, The Canadian Livestock Co-operative (Western) Limited. The cooperatives have taken over that branch of the drover's business which was least desired by the drover and which, in many cases, at least, he avoided, if at all possible.

"In the result, the cooperatives now handle about 18 or 20 per cent of the livestock business in the province of Manitoba. The Manitoba cooperatives have active

shippers numbering 23,000 out of a total number in the province of approximately 56,000. Three benefits have followed:

- (1) "The shipper gets almost an individual sale of his stock. The average sale made by the co-operative selling agency being 1.58 animals. Under the old practice the animals were sold in carload lots or large groups. Very frequently the shipper, who might have animals of very good quality, was getting only his average return from the whole car or group.
- (2) "The cost of delivery to the packing house was very substantially reduced. Taking for purposes of illustration, Portage la Prairie, we find that the drovers charge which included freight and brokerage charges was \$1 per hundred weight. This has been reduced to 50 cents per hundred weight.
- (3) "It has been stated that the agreement of the selling agency is that it shall do business at cost, but in the meantime deducting as against costs the amounts allowed as handling charges by the rules of the Winnipeg Livestock Exchange. Approximately 33-1/3 per cent of these charges are surplus at the end of the year and are returned to the respective member cooperatives as previous indicated. The total business done in 1943-1944 was \$16,326,972.24, and the surplus returnable to the cooperatives was \$76,575.74. A table of yearly business done and surplus paid over to the cooperatives is attached hereto.

"It is a commonplace statement that our civilization has conquered the production problem, but that the cost of distribution is excessive. The above indicates how the co-operating farmer has made a substantial effort to lower the cost of distribution up to the stage where the meat animal is delivered to the packer. The desirability of attempting this reduction in cost of distribution is indicated by the directors' report of 1937 to the members of the Manitoba Co-operative Livestock Producers Limited at Brandon. It was therein stated that in the United States of America for the year of 1932 the cost of meat animals at the farm was \$721,000,000. Delivered to the packing house the cost was \$861,000,000, an increase of \$140,000,000, or 20 per cent. It is further reported that the ultimate cost to the public was \$1,650,000,000 or an increase of \$935,000,000 on a product for which the farmer got \$721,000,000, an increase of 130 per cent. (Figures taken from bulletin 408, University of Illinois Agricultural Experimental Station, page 498.)

"Functions of the Manitoba Co-operative
Livestock Producers Limited"

"The Manitoba Co-operative Livestock Producers Limited distributes the surplus after deducting operating expenses only as received from the selling agency among the livestock producers, all of whom are members in accordance with the volume of the producers shipments during the year. No reserve is kept. The 1942 and 1943 distributions have not yet been made, owing to the fact that the man in charge of this work enlisted. The task of making the distribution was given to Hollerith & Company at Toronto and it is expected this will be completed in a couple of months. The distribution of the annual surplus, of course,

is a very minor task and the energies of this body are now chiefly directed to evolving plans for the benefit of the industry: educating its members, initiating or supporting favourable legislation, improving stock, methods of feeding and handling. This is indicated by the subjects discussed at the annual meeting. The 1937 minutes indicated a long discussion took place on market boards. In 1934 'The Natural Products Marketing Act' was discussed. At every annual meeting the question of boys and girls calf and swine clubs is under discussion. In 1938 it is noted that the establishment of assembling yards for the industry was under discussion. In 1938 the president was made chairman of a committee to study the production, transportation and marketing of livestock by the legislature. In 1938 an Act respecting transportation, packing, storage and marketing the natural products was approved. In the same year freight rates were discussed. Instructions were given to have a pamphlet issued with advice and direction as to how best to prepare stock for shipment. A newspaper is published by the Manitoba cooperatives, or under their authority, which is sent to every member. A perusal of the proceedings of the annual meetings indicates that they are treated more in the nature of conventions of those interested in the industry than as annual meetings of a business corporation. This phase of its activities probably contributes as much to the welfare of the industry and the country's production in the result as does the selling agency."

I would call attention to this fact, that the packing factor in our whole cooperative movement is the most valued part of the movement. Farming is a hazardous occupation. Farms are isolated. But we find that there are

thousands of men and women giving their time, some of them with some remuneration, many without remuneration, on these boards of directors. We would hope, therefore, that the government would hesitate before increasing the income tax on the earnings of unpaid dividends. Continuing:

"Comparative Position of Competing Private Corporations.

"One can hardly say that there are any businesses or persons on a comparative basis with the cooperatives, which interest themselves in all phases of the industry -- sires, dams, breeding, feeding, preparations for shipping, transportation, as well as marketing. Two classes of persons are interested in parts of these activities. The drover and the livestock broker. The drover still carries on his business of buying direct from the farmer, with such of the farmers as desire to do business that way. The shipping and delivery of cattle on an agency basis never was a desirable business to the drover. One may say, therefore, that there is no interference with the drover's business, except perhaps to say that farmers who did not like doing business in that way were formerly compelled by the stress of circumstances to sell to drovers and now the drover has lost their business.

"So far as the livestock brokers are concerned, the selling agency of the cooperative charges the same in the first place. The selling co-op. pays expenses, including salary to the manager and, on an average, returns to the customer 33-1/3 per cent of the total selling charges allowed by the Winnipeg Livestock Exchange. The competing business pays all expenses, presumably -- including a salary to the manager owner, and on the same basis, has left over, no doubt, 33-1/3 per

cent of the charges for himself. The brokerage business privately owned is run primarily to return as many dollars to the manager owner as is possible. The cooperative selling agency is run on the basis of giving service to the livestock producer. It may well be, therefore, that the manager owner has more than 33-1/3 per cent left over for himself. It may further be added that from the standpoint of a member of the cooperatives, these two selling agencies, on one hand the cooperative, and on the other hand, the private agency, have the following relation to him. The cooperative selling agency is his servant, giving him the service which he requires, and for which the livestock producer is willing to and does pay appropriately. On the other hand the previous system of selling through drovers, left the impression with the farmer that he was a victim of the system and compelled to take from the drover whatever portion of the ultimate sale price he was willing to pay.

"Should the Government Attempt to make Co-operatives subject to Income Tax?"

"The cooperatives for handling primary products do not presently pay income tax. This Commission has, as part of its duties, to decide whether the cooperative should pay income tax or not. There is a widespread opinion amongst primary producers that in the long run all income taxes are paid by the producer, particularly income tax paid by dealers in the primary products. This point is not stressed, as undoubtedly, it will be laid frequently before you. Two points, however, are emphasized.

"The first is that owing to the many benefits to the industry and the country's production from the other activities of these livestock cooperatives, given before in

detail, it is to the general benefit that cooperatives be encouraged to continue their activities. It is submitted this is so even if such encouragement included exemption from income tax. The greater production of the industry, attributable to the efforts of the cooperative, must result in substantial increases in taxation to some part of the community.

"In the second place these cooperatives are all organized on a non-profit basis or a business at cost basis as stated in their charter. If they live up to the principles of that charter, with no profits, then there can be no income tax. Finally, there is no legal or other method by which a cooperative company, or an individual, can be compelled to make a profit out of a business. These cooperatives are organized on a non-profit basis. They are honestly, faithfully and conscientiously carrying out the intent of their founders, or so they believe. The cooperative has chosen to carry on business in a way which disrupts as little as possible the business practices established in the livestock industry. It deducts a selling commission in the same amount as other brokers and as fixed by The Winnipeg Livestock Exchange. After deducting expenses the surplus is returned to the producer.

"However, assume for the moment, that it should be held by some authority that the cooperative is mistaken and its system of carrying on business is producing a profit which may be termed income and is therefore taxable. What will be the result? In order to conform with the principles enunciated in its charter, a method of doing business would have to be found by which it would be made certain that there was no profit. Dealing with this industry, that can readily be done. All that is

necessary is that Canadian Co-operative Livestock (Western) Limited cut the brokerage charge one-third or 33-1/3 per cent.

"In presenting this brief the livestock producers would not wish the Commission to think that they are adopting their position through an aversion to paying taxes. We realize that large taxes are necessary to carry us through this national emergency. We also expect that high taxation will be necessary to carry the social burdens of a modern state. Each individual livestock producer is prepared to assume and pay his income tax, the same as every other member of the community. The individual livestock producer does say that by agreement with his agent, the cooperative, the surplus in the hands of the cooperative is the property and part of the income, of him, the individual, and that surplus should not be considered the property of the agent cooperative, and should not be taxed as though it were.

"Canadian Livestock Co-operative (Western) Limited

"Manitoba Co-operative Livestock Producers Limited."

.....

Our auditor is here and any questions on bookkeeping I would refer to him. I am just a farmer and am not familiar with auditing, and I would prefer that our auditor be asked any questions in connection with the auditing of the books.

BY MR. FARMER:

Q. On page ten you suggest that should it become necessary to tax cooperatives a way would be found of meeting the situation by cutting brokerage charges. If that

can be done so readily, why are these extra charges made at the present time? What good purpose is served by making an overcharge and then paying it back if it can be done the other way so readily? A. The reason is that throughout the cooperative movement we never did intend to disturb already fixed charges which are considered fair by the livestock exchange and agreed to by the Department of Agriculture. It was simply that we did not wish to disturb that practice. If we did disturb it we would be disturbing a lot of other things relative to livestock.

Q. But you are prepared to create that disturbance?

A. If it is forced upon us.

Q; Rather than pay income tax? A. On a non-profit basis we would have to do it. We are organized on a non-profit basis and we think we are living up to it. However, if it is found that we are not, we shall be forced into the other position regardless of income tax.

BY MR. ELLIOTT:

Q. Suppose you did cut the charges to two-thirds, how would you then obtain the necessary capital to go on?

A. In the livestock? We have no capital. We do not require capital to any extent to carry on an agency.

Q. But you have been deducting? A. That is referred to in the selling agency, Western Limited, not Manitoba. That is on the revolving door plan and that will be paid back.

Q. You have a revolving door plan? A. On Western sales, yes, but not on Manitoba.

BY MR. PARKER:

Q. At the bottom of page nine you say: "In the second place these cooperatives are all organized on a non-profit basis or a business at cost basis as stated

in their charter. If they live up to the principles of that charter, with no profits, then there can be no income tax." Is it true, to your knowledge, that some at least of the cooperatives around here are not living up to that provision of their charter? I do not wish you to mention any names, but is that true? A. I would suppose that groups of farmers, untrained businessmen, would be liable to get away from the hard and fast road, but we are gradually getting to the place where we hope that in the future if not at present we will be on the hard-beaten road and properly organized as cooperatives. I would go so far as to admit that in the past --

Q. You have been a little careless and have been slipping? A. Doubtless there has been carelessness and lack of business training.

Q. Turn to Schedule 3 to the brief where you set out the by-laws. A. In dealing with this I would prefer if you would take our auditor to task.

Q. This is not an auditor's question. Turn to Schedule 3 for a moment. There you set out section 139 of The Companies Act and in clause (d) of section 1 we find: "If the by-laws of the corporation so provide, by dividing the remainder amongst the members and patrons to each in the proportion that the total volume of such business bears to the volume done by him or so that a patron's portion be not less than 50 per cent of a member's portion, and not by crediting the amount to be distributed to each patron to his account, and so from year to year until the par value of one share of stock or one membership fee, as the case may be, has been accumulated, whereupon the patron shall be a member and entitled to receive a fully paid-up share or membership certificate." What I would

call to your attention is this. If that provision is carried into effect, so it seems to me, it makes every man that does business with you of necessity a member. Sufficient proceeds from the sale of his livestock are held back so that he is almost forced to become a member whether he wants to or not. Do you see what I mean? A. Yes. We have provided that from surplus earnings, as mentioned, we retain a portion of his dollar or the whole dollar, but if he in turn does not wish to become a member and informs us it is sent to him and the account is cleared up.

Q. When is he notified; after the first shipment of livestock or at the end of the year? A. I would imagine at the end of the year. I am not familiar with the book-keeping.

Q. Suppose a man sends a shipment of livestock in March and the annual statement comes out at the end of the year, December, nine months later, such a man would be a member of the association without ever knowing it?

A. We do try to circulate it in the "Co-operative", which goes to every member and which carries notification of that almost weekly. We do try to inform them. We aim at giving information so that farmers will be better informed than has been the case in the past.

Q. Will you instruct your auditors to let us have the financial statements for the last four or five years?

A. I don't know what the ramifications here would be but we could suggest that he prepare anything that might be required by or be useful to the Commission. He is here today; and I would suggest that anything having to do with the set-up of the finances be referred to him.

Q. Perhaps he will take a note that the Commission requests him to prepare and send to us copies of complete

financial statements from 1938 to date. A. Doubtless he will do that.

BY MR. NADEAU:

Q. Could we have a complete set of your by-laws?

A. We will be glad to give it.

Q. For both the Canadian Livestock Co-operative and the Manitoba? A. Yes.

BY MR. ARNASON:

Q. Would you mind developing a little further the point that was raised by Mr. Parker in his last question to you with regard to the retention of earnings arising from non-member business and the crediting of those earnings to the non-member until he has an amount equivalent to the membership fee, whereupon he is made a member. Will you tell us a little more in detail why that is done? I might say that at previous hearings one suggestion that was made was that the policy should be to relate as closely as possible the customer's interest to that of the member, so that any customer who contributes to the volume of business by lowering the costs of doing business benefits thereby. It does not necessarily follow that you may have had the same idea in mind but I was wondering whether you would develop that a little further. A. If my memory serves me right, we have not had a person yet, to my knowledge, notifying us that he did not wish to become a member. Throughout the country it is thoroughly understood, and we have tried to make it clear, that this was the policy undertaken by us. It is a simple method and we follow it possibly because it is the line of least resistance. It has its advantages in view of the fact that we have no records. The earnings of most of them on one or two shipments are very small. It is earnings left over after expenses are paid.

I don't know that I can go very far into it except to say this. To my knowledge we have not had an individual, out of the 23,000 members who are shippers to our association, who has said that he did not wish to become a member. I cannot recall any person up to the present time notifying us to that effect. So that immediately a shipment comes in a credit is set up as though he had been a member for ten years. He is automatically made a member and we have not, to my knowledge at any rate, had one man write back to us saying he did not wish to become a member. It could be, as Mr. Parker suggested, that fifteen or twenty cents or a dollar could be held back for nine months or a year. It would be possible, but it has not been brought to our attention.

BY MR. THOMSON:

Q. The cooperative acting as selling agent for you on the Livestock Exchange at St. Boniface is actually a commission merchant. Isn't that so? A. I would not say yes to that. If you would permit me to answer the question in my own way, I would say that as regards the livestock yards in St. Boniface I think every farmer in the country is free to consign a shipment to his own order. I could if I wanted, or any other farmer in the country could go there and sell livestock; but we have neither the time nor the experience to do that, and it would be expensive. So we prefer to hire men to do it. These men whom we hire are on salary. I am not sure I can answer yes or no, but these are the facts. We hire a man to do the job because we have not the time and we do not feel that we are as capable.

Q. But you have offices in St. Boniface. Is not that the fact? A. The Western Limited?

Q. Yes. A. Yes.

Q. And you are a member of the local livestock exchange? A. Yes.

Q. Subject to all the regulations of that exchange? A. Yes.

Q. And that exchange in turn is subject to the regulations set up by the Livestock and Livestock Products Act, 1939? A. I suppose it is.

Q. You have seen that Act? A. I am not familiar with it, but I understand it is subject to ratification by the Department of Agriculture.

Q. In all things? A. Yes.

Q. What would you say "all things" would include? What do you require ratification for -- tariffs and charges? A. I refer to them as such.

Q. And the method of handling cattle? A. I would say so, yes.

Q. And the health of animals regulations? A. Yes.

Q. Then you charge the Commission laid down by the exchange, which is approved by the Department of Agriculture at Ottawa? A. I think I made that clear.

Q. And the same tariff is charged by the commission merchant? A. Yes.

Q. Do you pay income tax? A. Do you mean the Western?

Q. Yes. A. There is nothing to pay income tax on.

Q. But you return 33-1/3 per cent on the total cost? A. Practically so now.

Q. Without deducting income tax? A. Yes.

Q. But the commission merchant pays income tax; isn't that so? A. I expect so.

Q. You state that at one time in the history of Canada,

usually the drovers bought outright, and occasionally they could be persuaded to sell on commission? A. Yes.

Q. The commission idea was preferred by the farmers?
A. Yes.

Q. Do you in your practices handle on a cooperative basis cattle shipped, calves or swine, for non-members?

A. You are referring now to the Western Limited?

Q. I am talking about the commission business on the exchange. A. We sell for anybody that sends stock to us.

Q. Do you sell for them on a cooperative basis?
A. You might say possibly -- I don't know whether I could answer that to your satisfaction or not.

Q. Is there anyone here who could answer that for you? A. Yes. Our manager could answer it in greater detail than I can.

Q. I would like to have that question answered.
Another question arising out of that I would also like to ask the manager.

MR. SCARTH: Do you want the manager in the box now?

MR. THOMSON: I am not calling him.

MR. SCARTH: You can inquire of the manager.

THE CHAIRMAN: No. Put the witness in the box.

F. H. DOWNING

Manager,
Canadian Livestock
Co-operative (Western) Limited.
having been duly sworn
testified as follows.

BY MR. THOMSON:

Q. You are Manager of this business? A. Yes.

Q. Do you sell cattle on a cooperative basis for others than the primary producer? A. For Manitoba?

Q. Anywhere? A. Let me explain this. As I understand it, Mr. McCallister was presenting a brief

for Manitoba. In so far as that is concerned, the answer is no.

Q. You do not sell for non-members on a cooperative basis? A. Correct.

Q. In Manitoba? A. For Manitoba.

Q. Do you sell for non-members in Saskatchewan on a cooperative basis? A. Yes.

Q. Who are those members and how do they obtain their livestock? Are they primary producers of livestock or are they drovers? A. There may be some drovers. They are largely producers.

Q. But there are some drovers from whom you buy cattle and with whom you deal on a cooperative basis? A. That is right.

THE CHAIRMAN: Have you any questions, Mr. Scarth?

MR. SCARTH: No; that is all.

.....

The Examination of A. McCallister resumed

BY MR. THOMSON:

Q. I would like to know the meaning of the sentence that begins in the sixth line from the bottom of page seven: "In 1938 it is noted that the establishment of assembling yards for the industry was under discussion." What do you mean by assembling yards? A. Possibly I could illustrate it by referring you to such a centre as Brandon where we assemble livestock and forward it.

Q. But not stockyards in the accepted term -- not for resale there? A. Some.

Q. On page eight you refer to the "comparative position of competing private corporations." I assume you

had in mind the commission merchants as private competing corporations? A. Yes.

Q. You lay stress on it: "One can hardly say that there are any businesses or persons on a comparative basis with the cooperatives, which interest themselves in all phases of the industry -- sires, dams, breeding, feeding, preparations for shipping, transportation, as well as marketing." Have you made any investigation into drilling for oil? A. No.

Q. Have you made any investigation into the manufacturing of automobiles? A. No.

Q. But you do make investigations into breeding, feeding and so on, as mentioned here? A. Yes.

Q. There is nothing peculiar about your interest in your own business? A. No.

Q. Therefore there is no reason why stress should be put on that? A. There is a difference between the cooperative and the commission merchant. We do that and to any great extent they do not do it.

Q. On page nine you make the statement "that the manager-owner has more than 33-1/3 per cent left over for himself."

MR. SCARTH: It may well be.

BY MR. THOMSON:

Q. "It may well be." You know that you can only give back 33-1/3 per cent at cost selling? A. Yes.

Q. Is it fair to make the statement that he can do business better than you can? A. Yes.

Q. In view of the fact that he pays income tax, is it fair to say he will have that left? A. He could have.

Q. But do you say that he would have it?

A. There is so much variation in his ability to do business.

Q. Is that an admission by you that the commission merchant can do better business than you? A. I only know what we can do, and he may do it better than we can.

Q. Are we to accept it from you that you believe he can do better than you can? A. It is possible he could. We have no comparisons other than our own business.

Q. On page ten, towards the end of the second paragraph, you say: "Dealing with this industry, that can readily be done. All that is necessary is that Canadian Co-operative Livestock (Western) Limited cut the brokerage charge one-third or 33-1/3 per cent", and would have nothing. Would you assume that your competitors could stay in business against that? A. I don't know. It would depend on their ability to do business.

Q. On what basis was the tariff at the yard set? A. I have no idea.

Q. Have you any idea as to whether it is fair or unfair? A. To us it is an excessive charge.

Q. To those who do not pay income tax? A. Or anyone else. It does not cost \$17 to sell a car of livestock.

Q. What does it cost? A. I only know what it costs us.

Q. What does it cost you? A. Two-thirds of that.

Q. Two-thirds of \$17; but again there are no deductions from that? A. No.

MR. SCARTH: I think Mr. Downing misunderstood the question that was asked: "Do you buy from brokers and drovers in Saskatchewan?". He would like to correct it. You were asked whether you bought cattle from drovers in

Saskatchewan.

MR. DOWNING: The question, as I understood it, was: "Do you sell cooperatively?" That is the question as I understood it. We buy no cattle either cooperatively or in any other way.

BY MR. THOMSON (to Mr. McCallister):

Q. The question was, do you deal cooperatively.

A. That is using another word.

Q. Do you act as commission agent in selling cattle cooperatively for a man who is not a member of your association? A. That is the way I understood the question in the first place -- do you sell cooperatively. The answer is yes. But if you say, do you buy, that is another question. I answer this question, "Do you sell cooperatively?" affirmatively.

Q. From whom do you obtain cattle? Is he a drover or a primary producer? A. It might be either that we sell for.

Q. Do you sell for drovers? A. Yes.

Q. Who are not primary producers. A. I would not say that. You can say that, but I would not say it.

Q. Do you know? A. I would not answer that yes or no.

Q. Then you don't know? A.. No, I don't know. When a man brings a load of cattle we don't ask him whether he has had them a day or a week.

Q. Do you know these drovers? A. Some of them, yes.

Q. And they continually do business with you? A. Be explicit. We sell for them. I want to be clear.

Q. When I say do business with you, I mean within the scope of your business, which is selling for or

buying? A. No, no; stop there. That is what you introduced before.

Q. You don't buy for your order? A. No.

Q. You just sell? A. You said, "You don't buy on order"; that is another thing.

Q. Well, answer it.

Q. We buy on order but we don't buy for our own order.

Q. Let us come back to the question I want to know. Do you act as agent on a cooperative basis for men who do not produce the things that they sell? A. I would have to ask you what you mean by "produce."

Q. Men who are not primary producers or feeders.
A. We sell for and purchase for men who bring in cattle who may or may not breed and raise the cattle.

Q. If they have not bred and raised the cattle do you know whether they bought them last week or yesterday, or when? A. We don't deal with that.

Q. You do not deal with drovers at all? A. No; don't put words in my mouth.

Q. Then you will not say you do or do not act for drovers who are just drovers? A. We sell.

Q. Answer that question. A. Just a moment -- for drovers who are just drovers? Is there any such animal?

Q. I don't know; I am asking you. A. I don't know either, and that is why I won't answer that question yes or no.

Q. You say that every person who brings cattle to your yard for you to sell on an agency commission basis is a primary producer or feeder? A. Oh, no.

Q. Then some of them must be drovers? A. They might be.

BRIEF SUBMITTED ON BEHALF OF
THE LIVESTOCK COMMISSION MERCHANTS OF WESTERN CANADA

MR. THOMSON: I have been requested by the Western Canada Livestock Commission Merchants, independent of the cooperatives, to file with your Royal Commission submissions in keeping with their way of thinking. I have avoided in this brief any statements of fact that cannot be established by documents available to the Commission, with the exception of page two, the second paragraph from the bottom of the page, which has been substantially dealt with in the last submission presented by Manitoba cooperatives. This was prepared on very short notice and I tried to get it into Regina by the 29th. I had about four days so that my submissions were acquired largely by telephone. I was instructed by telegram from Calgary, by telephone from Edmonton and Saskatoon and by telephone from Winnipeg to put something in which would at least keep the door ajar until something further could be submitted. In view of the fact that I am submitting this as solicitor, and entirely wishing to avoid statements of fact, save and except that contained in the interpretation section of the submission, I have avoided such statements.

"Interpretation:

"For purposes of this submission, reference is made to The Live Stock and Live Stock Products Act, 1939, being 3, Geo. VI, Chapter 47, Part I, at Section 12, -

(b) 'Commission merchant' means any person, partnership or corporation engaged in the business of negotiating, for a commission, purchases or sales of live stock at a stockyard or arriving at or for delivery to a packer's yard, and who expends or receives moneys on behalf of a purchaser or vendor;

"(c) 'Cooperative association' means any organization of producers engaged in negotiating purchases or sales of live stock, for a commission, at a stockyard or arriving at or for delivery to a packer's yard, and which accounts for moneys expended or received, less marketing charges, to members of the association;

(g) 'Live stock exchange' means an organization of persons engaged in the business of negotiating purchases or sales or buying or selling live stock on a stockyard and the membership of which consists of at least three or more commission merchants and/or cooperative associations;

"Commission Merchants:

"Commission merchants in competition with cooperative associations operate upon the live stock exchanges of western Canada and so have a vital interest and concern in the investigation and findings of your Commission.

"Accordingly, it is suggested on behalf of the commission merchants that they, being mostly interested in clause (c) of the subject matter of your inquiry, request a hearing on behalf of themselves and be permitted to attend before your Commission in person and/or with counsel in such a manner as may be expedient in assisting you to understand their particular business and its relation to cooperative associations.

"Method and Regulation of Business:

"Commission merchants and cooperative associations are buyers and sellers of cattle for a commission, operating upon local exchanges and are governed as to charges by the tariff set down by the local exchange, and as to conduct by the rules and regulations of such local exchange.

"Tariff and regulations are subject to the approval of the Minister of Agriculture at Ottawa and all commission merchants and cooperative associations must, under section 17, sub-section (1) of The Live Stock and Live Stock Products Act, 1939, be members of the local livestock exchange where three or more commission merchants and/or cooperative associations carry on business.

"Comparative Marketings:

"Cooperative organizations in Canada in 1943, dealing in livestock, handled 17 per cent of the total commercial marketings of cattle, calves, hogs, sheep and lambs. (See cooperatives in Canada, 1943, Richards and Lalonde, page 2). From this it is seen that 83 per cent of such marketings were effected through other channels and a substantial percentage through commission merchants upon the livestock yards throughout the dominion.

"It would appear that producers representing 83 per cent of the livestock marketed in Canada in 1943, evidenced by their marketings, chose to sell their animals through marketing services, paying income tax to the common treasury. It is not argued to the contrary, but truly believed by the commission merchants, that the producers of livestock wish no exemption from obligation, but rather desire to associate themselves in the carrying of all national burdens.

"In 1943, 225 of the 853 cooperative associations were busied in the marketing of livestock and \$62,839,580 of the total sales of \$295,499,274 resulted from such industry.

"There are in western Canada nineteen commission merchants, being companies, partnerships or persons registered as commission merchants with the Department of Agriculture

at Ottawa. There are three cooperative associations registered similarly with the Dominion Department of Agriculture.

"Submission:

"The commission merchants respectfully submit that the same expenditure on the part of the Dominion Treasury effective in education, trading, and protection benefit both cooperative and commission merchant alike. The commission merchant is and has been the trustworthy agent and friend of the producer and feels that the producer is entitled to the best that can be given him by his country in the way of privilege, but in return he must pay tax as do all others in fulfilment of the obligation associated with privilege.

"Although it might be argued that conditions have not changed since the exemption of cooperative organizations took place, it cannot be argued that the continuance of a wrong will eventually emerge in the creation of a right.

"Another illustration of danger occurred in Calgary and in Edmonton, when the Alberta Livestock Co-operative Association purchased two successful and going concerns in the commission merchant business. Immediately upon the purchase of these organizations by the cooperative tax was extinguished, yet we have no reference to indicate that the power to vote expenditure on the protection of this particular cooperative had been similarly extinguished. The salt having lost its savour, wherewith shall be it salted?

"The cooperatives, having immunity from taxation, are enabled to unfairly compete against other commission merchants and among many possibilities within the scope

of their administration is power to pile up reserves in order to indulge in facilities beyond the reach of the tax-paying commission merchant.

"Then, too, the obvious continuance of this inordinate practice, there seeming to be no 'terminal facilities' to their program, and the activities of the cooperatives seem to have no end, it is quite conceivable that such practice might continue until we all become cooperatives tax exempt and then from what source will revenue be obtained? Their power may grow and continue to such an extent that by the power of their vote they can place burdens upon their competitors too heavy for such competitors to bear.

"The growth of the individuals employed by the cooperatives and their education have been the result of state expenditure but they, in turn, having been so educated can turn upon their benefactors and destroy them in their businesses.

"Looking forward, the time may be within view when the ability of the remnants of the trading industry will be diminished by the continuing immunity from taxation of such cooperatives to the degree that they will no longer be able to take their place in the industrial life and well being of the nation.

"Conclusion:

"Based on such facts and possibilities, it would appear -

- (1) "That failure to enforce payment of income and excess profit taxes by cooperatives who operate as commission merchants cannot longer be justified on economic and equitable grounds;
- (2) "That it is detrimental to the public interest;

(3) "That it involves discrimination against commission merchants in competition with them, but being compelled to pay such taxes;

(4) "That generally the liability for and extent of such payments of taxes by the cooperatives should be determined on precisely the same basis as that governing commission merchants in the carrying out of their duty and the paying of their taxes.

"This is all with proper and due respect submitted."

.....

Since the preparation of the brief, I would ask to be allowed to say a few more words reflecting the opinion of those for whom I speak.

They feel that the nation is faced with requirements not only for the continuance of the war but in respect of rehabilitation, and it is their view that, having regard to the great need that exists, inequalities should disappear. They feel that democracy is cooperative, but it is also their submission that cooperation imposes upon all the duty of following things through not only to the sweet but also to the bitter end. They cannot understand therefore a cooperative company that is limited in obligation and unlimited in privilege.

Where does this sort of thing end when what claims to be a partnership is limited as to obligation? How can a partnership be a separate legal entity from the persons of the partnership?

A great deal has been said about handing back profits. If that were the practice in private enterprise, where would the profits go which make possible invention, exploration and discovery? Among the many types of individuals

there are two I have in mind particularly: the one who spends his days in most luxurious idleness, and the other in most profitable leisure. The inventor is one of these.

If private corporations have no money, how can they allow the inventor to sit with his feet on his desk and ponder problems? He seems to be idle, but it is not idleness; it is leisure that will in time yield its profit.

This morning a gentleman produced a brief for a cooperative and stated that they took the place of jobbers in the oil business. As I understand the business, you have the producer, the refiner, the wholesaler or the jobber, and then you have the retailer and the consumer. As far as the cooperatives are concerned, they have got to the third stratum of that business, namely, the jobber. If that is so, why not further? The reason is obvious.

Only by profits can you own a well; only by profits can you put up equipment to refine the oil; and if it had not been for the profits these people complain against they would have to go a long way further than the jobber to get oil, if at any time they got it.

It would appear that the cooperative movement is building a nation within the nation.

I am alarmed by the very skill of these men who are carrying on this work. If by their skill the process is hastened and we get it over quickly, that may be all to the good: we shall not realize too suddenly what has happened. And these men have the capacity to carry the nation to that state. Perhaps we shall find ourselves in the quandary of the man -- there is one in every village in the dominion; there was one in my home town -- who built a boat in his cellar in the winter and in the spring could not get it out. We may be building here a boat which, when

the spring comes, we shall find it impossible to launch.

There is an old fable of the Indian chieftain who took home a Bengal tiger cub believing it was a lively little pet for his children. Eventually it grew so large that it devoured the household. Are we facing a similar experience here? I am speaking for the farmer, and with some authority, being one myself, when I say that the day may come when the farmers will say, "Yes; we were tax free; but with what price bought we that freedom?" I thank you, my lord.

MR. PARKER: I am too overpowered to ask any questions.

MR. SCARTH: I presume statements will be filed in the same way as with the cooperatives, from 1938 on.

MR. THOMSON: I have no objection to filing any statement, but it is not the taxation of independents that is under review; it is the taxation of cooperatives.

THE CHAIRMAN: The only reason for it would be the comparison which we are asked to draw.

MR. THOMSON: The fact is judicially noticed, no doubt, that we pay taxes and they do not, and we are interested to know why they do not.

THE CHAIRMAN: I do not see what use you intend to make of it, Mr. Scarth.

MR. SCARTH: Your Commission is inquiring into the incidence of the tax.

MR. THOMSON: I am not anxious to suggest that my people should disclose their business.

THE CHAIRMAN: I do not think we want it. We can get it later if we do.

MR. PARKER: The next brief to be submitted comes from the Manitoba Co-operative Poultry Marketing Association Limited.

C. B. McLEAN

President,
Manitoba Co-operative Poultry
Marketing Association Limited,
having been duly sworn
testified as follows.

BY MR. SCARTH:

Q. What is your position? A. President.

Q. How long have you been in that position?

A. Five months.

Q. How long have you been connected with the Poultry Marketing Association? A. Twenty-two years.

Q. You have prepared this brief and are familiar with the facts and they are correct to your knowledge?

A. Yes.

Q. Will you read the brief? A. It is as follows:

"This brief is submitted on behalf of the Manitoba Co-operative Poultry Marketing Association Limited, incorporated June 1924, to the Royal Commission on cooperatives.

"I am privileged to present, on behalf of the members of the Manitoba Co-operative Poultry Marketing Association Limited, a brief history of our association. I have endeavoured under the following headings to give you an accurate record of marketing conditions prior to its inception, the efforts made by our members to improve marketing conditions through the medium of cooperation, and to give in some detail the degree of success achieved.

1. "Dressed Poultry Marketing Conditions
in Manitoba 1922

"A large percentage of the poultry marketed was through the medium of general merchants or butcher shops, who in turn sold it to packing companies or produce firms located in the larger urban centres. Our farmers had

little knowledge of efficient methods of fattening, killing and dressing, and it would be fair to say that, judged by present grade standards, 50 per cent of the product marketed was undergrade when it reached the consumer. The margin between the average price paid the farmer and the car lot market value for shipment to industrial cities in eastern Canada was 13 to 15 cents a pound. We have evidence that in some instances the margin between the price paid Manitoba farmers for turkeys and the price paid by consumers in Montreal was over 40 cents a pound. The average net return to Manitoba farmers for dressed turkeys at that time was approximately 15 cents a pound; dressed chicken, 12 to 15 cents a pound; dressed fowl, 10 to 12 cents a pound; and ducks and geese, 10 to 12 cents a pound.

"2. Early Operations and Marketing Program
Adopted by our Co-operative Marketing
Association.

"The early history of cooperative marketing of dressed poultry in this province dates back to 1921, when the boys and girls club section of the Hartney Agricultural Society endeavoured to market a car lot of dressed poultry, mainly turkeys, in early December of that year. A date was set for the assembling of the product in the town hall and the large packing companies were invited to send out their buyers from Winnipeg. Approximately 20,000 pounds of product were assembled by club members and their friends. Prizes were given for the best finished and fattened product of the different varieties. An effort was made to classify it into two or three grades, and sell it on quality or graded basis. Apparently the three or four buyers who attended had got together before their arrival at the hall and agreed upon a flat price. Ultim-

ately the club officials were obliged to divide it up among the buyers at their price, which was somewhat higher than the quoted market. The outstanding feature of this club activity was the interest created amongst its members in the future possibilities of collective marketing and the possibilities for improvement in the quality and condition of the product to be marketed.

"Plans were immediately formulated by club members for a more extensive marketing program in 1922. It was realized that some form of educational program in respect to proper methods of fattening, killing and dressing was desirable, that a standard grading should be adopted, and that the product should be box-packed and made available in refrigerator car lot quantity, thus enabling sale to be effected on the best market available, either in United States or eastern Canada. Fortunately, the Dominion Government had in 1921 appointed a poultry promoter in this province, Mr. A. C. McDulloch, who was greatly interested in improved marketing methods, and who wholeheartedly took charge of the educational program and extended same to cover the districts of Lyleton, Waskada, Goodlands, Deloraine, Medora, Killarney, Melita, Hartney and Lauder.

"A meeting held in Melita, November 1922, with the representatives present from the districts above named, set up an unincorporated association under the name of the Manitoba Co-operative Poultry Marketing Association. The program adopted for the 1922 poultry crop marketing season was to endeavour to market carlots, or part carlots of graded box-packed turkey, chicken, fowl, ducks and geese; membership to be open to all producers who would make a conscientious effort to conform to an

educational program in the preparing of their product for market; the membership fee to be one dollar; no advance payment was to be made to producers at time of marketing; all members and officials to give their services free in assisting with the grading, packing and loading of cars; payment for the product to be made to members when the product was sold and essential costs for hall rent, boxes, paper, etc., and a small fee for accounting, had been deducted.

"The net result of this first season's operation of the association was that, through the medium of a collective cooperation marketing program, these producers marketed approximately 80 per cent of their product as number one grade or better. They enhanced the reputation of western poultry almost 100 per cent, due to the fine quality and marketing condition of the product on its arrival on eastern markets. They enhanced their net cash return to the extent of reducing the margin between the price paid the producer and the carlot market value from the customary 13 to 15 cents to less than 4 cents a pound. In other words, they revolutionized the marketing of dressed poultry in Manitoba in the areas of their operations.

"3. Incorporation and Organization of Association 1924.

"During the course of the annual meeting of the Manitoba Co-operative Poultry Marketing Association held in Brandon in March 1924, a resolution was passed unanimously instructing the board to proceed at once to have the association incorporated under the Manitoba Co-operative Association Act. Organization of the new incorporated association was carried out in conformity with the provision of the Act. The political structure of the association was as follows:

- "(a) All producers delivering product to the association to become members.
- "(b) All members were grouped into community locals.
- "(c) All community locals were in turn grouped into districts.
- "(d) The province was divided into nine districts.

"Democratic producer control of the association was assured by adopting the principle of one member one vote. Members exercised this control through the medium of electing delegates from their locals to the annual meeting. They further exercised their control by the delegates from the locals in each district electing their director to the board.

"Up until 1932 all receipts of poultry products from members were handled on a pool basis, meaning an advance payment on delivery of the product and final payment when the products had been sold by the association. Since 1932 dressed poultry continues to be handled on a pool basis, but live poultry and eggs are now handled on a basis of paying the member the general market price or higher at time of delivery and paying out any surplus earnings after essential deductions for operating and sales costs in the form of patronage dividends.

"4. Egg Marketing Conditions in Manitoba 1924

"A large percentage of the eggs marketed in Manitoba at this time, was marketed through the medium of country merchants, who in turn sold them on an ungraded basis to the large packing companies or produce dealers in the urban centres of Brandon and Winnipeg.

"Our farmers had little knowledge of efficient methods of egg production or how to exercise proper care in handling. We were given no encouragement by those

interests in charge of egg marketing to market better quality eggs, as we received the same price irrespective of quality. The margin between the carlot market for eggs for shipment to eastern industrial cities and the average price paid the Manitoba farmer was approximately 13 to 15 cents a dozen. Judged by our present grading standards 50 per cent of the eggs marketed were undergrades or worse. The average price being realized by Manitoba farmers for eggs during the production season was 9 to 12 cents per dozen.

"5. Early Egg Marketing Operations and
Marketing Program Adopted."

"Our approach to attempting to improve egg marketing conditions was similar to that we had found so helpful in respect to the marketing of poultry meat. Our annual meeting held in Brandon in March 1924, endorsed the recommendation made by delegates that the association establish egg marketing assembling facilities in an area of fairly substantial production. We first decided on a marketing program which would encourage the production and marketing of higher quality. Eggs were to be handled from members and producers on a graded basis, and before commencing operations, a sufficient volume was assured to permit the association being able to offer graded government inspected eggs in refrigerator carlots to the best markets available. An extensive educational program was effected to improve production conditions on the farms and emphasizing the use of proper egg cases, proper care of the eggs and an economical system of collective shipments to the grading centre.

"The net result of this initial egg marketing operation was that through the medium of a collective cooperative egg marketing program, our producers marketed the

first season, approximately 75 per cent of their eggs as first grade or better. They reduced the margin between the carlot market value and the net return to approximately 5 cents per dozen, thus actually obtaining for themselves a net return approximately double that which producers were receiving in areas outside the area of their operations.

"6. Incorporation and Organization of
Sales Agency 1929.

"In view of the many merchandising problems with which all western Poultry Marketing Co-operatives were faced in the late twenties, particularly that of developing export markets for a rapidly expanding production, we joined with the British Columbia Egg and Poultry Co-operative, the Alberta Poultry Pool and the Saskatchewan Co-operative Poultry Producers Limited in establishing a central sales agency incorporated under Dominion Charter. This agency was incorporated May 29, 1929, under the name of Canadian Poultry Pool Limited (which was later changed to Canadian Poultry Sales, Limited), capitalized at twelve shares no par value. It is now the exclusively owned sales subsidiary of the Manitoba Co-operative Poultry Marketing Association Limited and the Saskatchewan Co-operative Creamery Association Limited. It operates as a cooperative, has a board of seven directors. It receives its operating funds by establishing an arbitrary sales assessment on each pound or dozen of poultry products handled by its principals, and allocates the unexpended part of this assessment back to its principals at the end of each year.

"7. Development of Export Markets:

"The growth, expansion and marketing achievement of our cooperative marketing associations in Manitoba and

other western provinces contributed in no small measure to the expansion of the poultry industry during the period 1924 to 1931. We producers realized there was a definite limit to the possibilities of domestic consumption of poultry products. We believed that export markets could be established for the high quality of product we had learned to produce. Almost two years before our production exceeded domestic consumptive requirements, we instructed our sales department to investigate the export market possibilities for our product to the United States and the United Kingdom. We took the opportunity of exhibiting our pack at the World Poultry Congress, Ottawa, 1927, and at the World Poultry Congress held in the Crystal Palace, London, England, 1930. Our cooperative pack of poultry products was the only commercial pack on exhibit from Canada. During 1930 we exported a portion of our storage egg pack which was most favourably received and for which we established a market basis slightly higher than paid for imports of storage eggs from any other area of the world. Our outstanding marketing achievement was the export of a relatively large tonnage of fresh Manitoba turkeys in early December 1930 for Christmas distribution on the markets of the United Kingdom. We have reason to believe that the success achieved was the most outstanding in the export of any Canadian agricultural product. Not only did we establish a price basis many cents over that being paid for imports from any other area of the world, but we established a permanent demand for our pack which we have never been able to fill.

"We are particularly proud of the part we have been privileged to play in the development of export markets.

The benefits have been shared in small measure by the entire Canadian poultry industry.

"8. Expansion of Facilities to Service the Industry.

"The growth and development of the poultry industry in Manitoba since the inception of our Co-operative Marketing Association has necessarily incurred responsibilities in providing up-to-date modern facilities. We are always endeavouring to improve or perfect our service. We have approximately 145 dressed poultry packing and shipping locals; two modern killing and dressing plants; 61 egg grading stations; and possibly the largest modern central assembling warehouse, located at the Winnipeg Cold Storage, Winnipeg, that there is in Canada.

"A large percentage of our association's expenditure on new facilities in recent years, has been essential, due to requirements of Dominion and provincial legislation governing facilities for the assembling, grading, packing and processing of poultry products.

"9. Contribution to Canadian War Program.

"Out of a total of 656,111 cases of eggs inspected in Manitoba and delivered to the Special Products Board for shipment in shell or dried form to the British Food Ministry, December 1941 to November 1, 1944, our sales agency has delivered 380,204 cases.

"A large quantity of both eggs and poultry meat has been supplied to the Department of Munitions and Supply, hospital ships, etc.

"During the war period to date, our association and sales subsidiary has purchased, and still retains, war bonds to the amount of \$140,000 which was approximately

90 per cent of its total capital, commercial reserve and unallocated surplus as at November 1, 1944.

"10. Summary - Showing Disposal of
Monies Retained from Initial
Transactions with Members.

Total sales from 1922 to February 1, 1945.		\$ 18,128,418
Total units marketed for members in pounds or dozens		77,273,878
Total sales from 1922 to February 1, 1944		\$ 15,623,228
Initial payments to members		<u>12,390,459</u>
	Balance	3,232,769
Operating expenses		2,389,281
	Balance	843,488
Final payments paid		589,462
	Balance	254,026
Patronage dividends paid		38,917
	Balance	215,109
Patronage dividend allocated for payment		90,572
	Balance	124,537
Statutory reserve		10,000
	Balance	114,537
Undistributed monies in hands of sales agency as operating capital	74,000	
Undistributed surplus earnings Manitoba Co-operative Poultry Marketing Association	<u>40,537</u>	
	<u>\$114,537</u>	<u>\$ 114,537</u>

"Further details as to our financial position at January 31, 1945 will be filed by our auditors with your Commission following our annual meeting held later this month.

"11. Prospective Post-War Marketing Problems.

"We all realize that the production of poultry products in Manitoba and Canada has been expanded under the necessity of war requirements far in excess of potential domestic requirements in the post-war period. It is possible that the surplus over domestic requirements may reach 3,500,000 cases of eggs, and 30,000,000 pounds of poultry meat in 1945.

"We have no guarantee that an export market for this volume can be found or retained in the post-war period. We do, however, believe that in the future as in the past, our association will be required to bear the major responsibility of finding and establishing export outlets for Manitoba's surplus production. We believe that our marketing achievement to date, as briefly outlined, is in itself conclusive evidence that through the medium of our own cooperative efforts we can best solve our post-war marketing problems.

"Respectfully submitted."

.....

BY MR. PARKER:

Q. On the last page of your brief you give the total sales from 1922 to the first of February, 1945. Is that the year? A. Yes. That should be 1945.

Q. And your other figures are correct? Further down you have an item of \$15,623,228. That is right? That is up to 1944. That means that in the last year, for 1944, the total sales were about two and a half millions?

A. Yes.

Q. I notice in your brief you say that as a result of marketing poultry and eggs cooperatively you increased

the price or the return to the producer by so many cents a pound in one case and so many cents per dozen in the other. Do you suggest that the increase which the farmer now gets for his produce is all due to the cooperative method or that only a part of it is due to that, the balance being due to the general rise in business throughout the country?

A. In that particular case, the fact that we gather our eggs and poultry in that way and ship by car lot makes for a reduction in overhead expenses to a large extent.

Q. Do you know what the poultry and egg producers who are not doing business cooperatively are getting for their poultry and eggs as compared with those who are dealing with the cooperatives? A. At the present time they must get the same price. If they did not they would not get poultry.

Q. Does that show that those who went into the cooperative business are any better off than those who stayed out? A. When we started to operate there was a difference in the handling of poultry.

Q. Will you let us have financial statements from 1938 to 1944, detailed statements from 1938 to 1944, from your auditor? There is no objection to have those filed with the Commission for study? A. I cannot say.

Q. You are president? A. I am president, but I am not in the office at all. I am in the country, a farmer, and I leave it to the general manager.

Q. Will you consult with him and see if it is all right to have those statements prepared?

MR. SCARTH: Whatever you feel you require we shall be glad to give.

MR. PARKER: That is what we would like to have.

MR. SCARTH: I did not think you needed that.

MR. PARKER: Well, that is what we think we need.

MR. NADEAU: Could we have the by-laws of your association?

MR. SCARTH: I will undertake to file a copy of the by-laws for you.

BY MR. PARKER:

Q. Mr. McLean, I see you have among your assets a large block of Victory Bonds, and that you are holding undistributed patronage dividends amounting to \$114,000. Why is it that you chose to invest so much money in Victory Bonds instead of paying it out to those who are entitled to it and allowing them to do their own investing? What purpose does that serve? A. According to our way of paying patronage dividends, it is put on a three-year revolving fund plan and we pay these dividends each year.

Q. Why did you not pay this back? A. I would like to have the manager answer that.

Q. Can you not tell us? A. I am not familiar with these figures.

WALTER ANDERSON LANDRETH

Manager, Manitoba Co-operative
Poultry Marketing Association,
having been duly sworn
testified as follows.

BY MR. PARKER:

Q. I want to know what the policy of the company is in retaining that large amount and investing it in Victory Bonds instead of paying it out to those who are entitled to receive it -- if not all of it, at least the greater proportion of it. A. You will notice the \$140,000 is used as operating capital in the sales department. The money is retained. The fact that we buy bonds with it does not affect the moneys because the bonds are

collateral for any bank credits we require, so that we can still buy \$140,000 worth of bonds without affecting our financial position.

Q. I quite realize that bonds are as good as cash, but why did you not pay that cash to your producers? Why does the association need that amount of working capital to carry on? A. It is quite evident from the volume of business handled that you need operating capital.

Q. What expenses does the association incur? A. It had operating expenses of two million and some thousand dollars. If you divide that out you will find there is a substantial amount every year, but in addition to that we carry large storage stocks of poultry in season and eggs in season.

Q. You don't buy them? A. No; we carry them.

Q. That costs you money? A. Yes. You have to advance to the producer when the association takes delivery of the product from the member. It makes an advance payment.

Q. He wants his money right away? A. Yes.

Q. You are merely the custodian for these stocks. You don't buy them.

BY MR. ARNASON:

Q. At the bottom of the table on page six there is an item of \$74,000 representing undistributed moneys in the hands of sales agency as operating capital. Has that money been allocated in any way to the different locals? A. Yes.

Q. It is all allocated? A. Ever since the sales department was set up. Of surplus earnings in this arbitrary assessment that is made at the beginning of each year,

any unearned part of that in the way of expenses that has not been paid out, has always been allocated in the fiscal year to the members pro rata to the volume, and that is the Manitoba association's share in the funds.

Q. Are you referring to the \$140,000? A. No, the \$70,000.

THE CHAIRMAN: Do the members ever question the wisdom of the directors in dealing with the surplus as they do?

THE WITNESS: No. As a matter of fact, in recent years there has been an idea on the part of the members, in view of the problems coming out of the war, that it would be well, and there has been rather a tendency that way, to ask them to hold funds and to use them in the purchase of Victory Bonds.

THE CHAIRMAN: I am asking whether the members, or what might be called the shareholders, question that policy.

THE WITNESS: I mean the members at the annual meeting. The members have asked that that be done.

THE CHAIRMAN: They are quite satisfied with the reserves?

THE WITNESS: Yes, quite satisfied.

BY MR. ARNASON:

Q. Is one of the reasons for their attitude in that regard the belief that it may be advisable to have some reserve to meet certain problems that may emerge in the post-war period? A. I think that is very true. That is a reason. They feel that these funds will be required in the post-war period.

BY MR. ELLIOTT:

Q. Have you ever made too large an initial payment?

A. No. We have been very fortunate in that respect.

BY MR. NADEAU:

Q. Do you sell supplies to your members? A. The egg shippers are provided with cases and that kind of thing. Dressed-poultry shippers do not require that because they operate through the locals where the product is assembled and packed.

Q. You do not sell supplies to your members?
A. We don't sell anything but a member may want egg cases.

THE CHAIRMAN: Are the cases lent to them?

THE WITNESS: No. They are sold at whatever the cost may be.

THE CHAIRMAN: To the individual member?

THE WITNESS: Yes.

BY MR. NADEAU:

Q. Sold by whom? A. By the association. For instance, egg stations that grade eggs carry extra egg cases for sale to members.

THE CHAIRMAN: You do supply, then, the necessary materials to the members?

THE WITNESS: Yes, for the packing of the produce.

BY MR. PARKER:

Q. Do you deal in poultry feeds and baby chick and that sort of thing? A. No. This association does not operate hatcheries.

Q. Do you supply poultry feed? Do you deal in that?
A. At the present time, no.

Q. Did you ever do it? A. Yes.

Q. When did you cease doing it? A. A year ago.

Q. Why? A. Because the feed department was turned over to another cooperative feed organization.

THE CHAIRMAN: Do you control that other organization?

Have you any connection with it financially?

THE WITNESS: We are members.

BY MR. THORVALDSON:

Q. On the first page of your brief I notice you refer to prices of poultry in 1922 as having been rather low. I suppose you will admit there was a severe agricultural depression in 1922 and the prices of agricultural commodities were low at that time and improved gradually as that decade wore on. Is that right? A. Yes, the general price level.

Q. After all, despite the fact that your brief refers to great strides having been made both with respect to price and as regards marketing methods, as to price at least there was a general improvement during the decade from 1922 on, was there not? A. No. Actually the situation is this. In 1922 actual carload selling value of poultry, at the time mentioned here, in the eastern industrial cities and in the United States, was higher than it was at any time, but one year, in the following eight years.

Q. Are you prepared to take complete credit to yourselves for following the market? A. Yes, we do.

Q. Then, in spite of marketing methods, is it not a fact that during the last twenty or twenty-five years there has been a great improvement in all types of marketing methods? A. That is right; but at that time, in the areas in which we did not operate, the margin was as big as quoted here.

Q. Is it true, or is it not, that in the last twenty years there has been a great improvement in the marketing methods in connection with agricultural products of all kinds in this country? A. I would say, on the whole, yes.

Q. There is no question about that. I notice also, you say on page two that in 1921 Mr. A.C. McDulloch, who was greatly interested in such methods, was appointed as promoter in this province by the Dominion Government. Would you admit that Mr. McDulloch probably had something to do with the improvement in marketing that occurred in the years following 1921? A. I think it would be fair to say that any agent interested in improvement would make some contribution.

Q. You state in your brief that he was appointed by the Dominion Government. He was of some value to the industry was he not? A. Yes.

THE CHAIRMAN: He would not have been mentioned in the brief unless he had been.

BY MR. THORVALDSON:

Q. I wanted to bring that out. On page three you say that you operate entirely as an agency. Do you?

A. You are talking about the Manitoba association?

Q. Yes. On page three you say: "Since 1932 dressed poultry continues to be handled on a pool basis, but live poultry and eggs are now handled on a basis of paying the member the general market price or higher at time of delivery and paying out any surplus earnings after essential deductions for operating and sales costs in the form of patronage dividends." So that as to part of your commodities you are vendors, you are buyers and sellers, are you not? A. We make an advance payment, yes.

Q. What does that paragraph mean? A. The initial payment made.

THE CHAIRMAN: On the advance payment do you get title to the poultry?

THE WITNESS: From the member?

THE CHAIRMAN: Yes.

THE WITNESS: Yes. The association has title, I would say, as soon as the product is turned over by the member.

THE CHAIRMAN: Title passes to the association?

THE WITNESS: Yes.

BY MR. THORVALDSON:

Q. Does that also apply to dressed poultry as well as to live poultry and eggs? A. Yes.

Q. So that you are not carrying on business on the agency basis? A. I would say the members of the association.

Q. Forget about the members. A. The shippers are the association, so I don't know how you differentiate.

Q. You have just suggested that title passes to the association when the poultry is delivered to you. You become the buyer. A. No. I would not say that, because that is not the way the transaction takes place. The member, who is a part of the association, directs the product himself to the association of which he is a member and it necessarily follows that somebody must have the right to sell. The association must have the right to sell as a marketing organization. But I would not say that the member gave up his interest in the product because he turned it in to the association on consignment.

THE CHAIRMAN: He is interested in the price but not in the actual poultry.

THE WITNESS: No. He has turned that over to his hired employees to effect a sale.

BY MR. THORVALDSON:

Q. I want that made entirely clear, that you are buyers and not sellers, not agents. A. No; we are not buyers.

Q. On page three you say: "Up until 1932 all receipts of poultry products from members were handled on a pool basis, meaning an advance payment on delivery of the product and final payment when the products had been sold by the association." Then you go on to say in the next sentence: "Since 1932 dressed poultry continues to be handled on a pool basis, but live poultry and eggs are now handled on a basis of paying the member the general market price or higher at time of delivery and paying out any surplus earnings after essential deductions for operating and sales costs in the form of patronage dividends." That paragraph seems to indicate that there are two methods and I am questioning you as to whether that is correct, whether there are two methods, and in respect of dressed poultry you say you handle on a pool basis but in respect of live poultry and eggs you are buyers. A. I may explain that. When you handle the product on a pool basis, anyway this association, we will say, it advances 75 per cent of the market value at the time of receipt of the goods, and when they are sold finally it makes the final payment of the balance. We are still operating the dressed poultry pool in this province under that system, but in connection with eggs and poultry we make an advance payment of approximately the competitive market price of the eggs or live poultry, and after it has been disposed of there is a patronage dividend on that product. There is a difference between the two bases.

Q. Who are the members of your association? Are they individuals or other associations? A. They are all individuals. Individual producers.

Q. What is your membership? A. I believe it is about 24,000.

Q. Have you a form of membership application that you use, or does every shipper who ships to you become a member? In other words, what are the conditions of membership? A. All shippers automatically become members.

Q. I beg your pardon? A. All shippers who consign goods to the association, producers who consign goods to the association, automatically become members in the course of time.

Q. Explain what you mean by automatically. A. Well, that is a provision in the original by-law of the association, that all that was required of a producer was that he signify his willingness to become a member of the association by consigning his goods to the association. There is no obligation on his part to ship to the association, and that was made public and made known to him before he shipped.

Q. You say that the by-law indicates that by shipping to you the shipper signifies his intention of becoming a member? That is what your by-law says? A. That is right.

Q. What do you mean when you say he knows before he ships to you that he is becoming a member? A. Because this organization, when it started, started in a small way and all producers were canvassed, and as the field was extended they were invited or asked to become members of the association, so that I would say that certainly in the large majority of cases, maybe 99 per cent of the cases, they knew what they were doing when they made a consignment of goods. They knew they were signifying their willingness to become members.

Q. When the shipper ships to you what do you do to make him a member? Do you do anything? A. All shippers

who send consignments of products to the association are registered -- the consignment is registered or recorded -- and when the final payment is made the membership fee is deducted of \$1. That is for the life of the organization.

Q. What do you mean, when the final payment is made? What final payment? A. When either the final pool payment or the patronage dividend is paid on the other shipments.

THE CHAIRMAN: How can you check non-member sales under those circumstances?

THE WITNESS: Because we record every shipment.

THE CHAIRMAN: But everyone is a member who deals with you?

THE WITNESS: That is right.

THE CHAIRMAN: Well, have you non-member sales?

THE WITNESS: No.

THE CHAIRMAN: You cannot possibly have?

THE WITNESS: No.

BY MR. THORVALDSON:

Q. So that in that way you completely circumvent section 4 (p) of the Income Tax Act by passing a resolution.

A. I would not say that was the case, because we were operating in this way long before there was a section 4 (p).

Q. But there was no purpose in having a membership form, then, so far as the income tax was concerned?

A. We were not thinking of income tax.

Q. But you have thought of it occasionally since section 4 (p) was enacted? A. Not in this case. We did not because we did not have any tax to pay.

Q. Do these members, as soon as they become members, acquire an interest in your association? A. To the extent of \$1 of their earnings.

Q. Have you one kind of membership or different types? A. Just one kind.

Q. You have no associate members; all members are on the same basis? A. Yes.

Q. So that actually, if a person shipped to you in January and you did not declare a patronage dividend until, say, December you would consider that person was a member of your association for a whole year without having anything to indicate that he was. Is that right? A. Yes, I suppose so.

Q. One or two more questions. In connection with your patronage dividend, how often do you pay these dividends? A. The general policy followed by this association has been to make final payments within about three months and the patronage dividends have been established on a three-year revolving basis. I do not know whether it says so in the brief, but that is the basis.

Q. So that you would pay the 1941 patronage dividends in 1944? A. That is right.

Q. Have you filed income tax returns? Do you file returns with the Income Tax Department? A. We file whatever statement we are supposed to file yearly. We have always filed it.

Q. Have you been assessed for income tax? A. Never.

Q. Has the department investigated your method of operation? A. I could not say.

Q. In connection with Victory Bonds you hold, I suppose you get interest on those? A. That is right.

Q. You do not pay income tax on that interest? A. No.

Q. Is that a saving or profit? A. I would say it

breaks about even.

Q. What do you mean by that? What breaks about even?

A. If we had that money in the bank we would not be borrowing from the bank. As it is now, we invest our working capital in the war loan and borrow money on that collateral so we pay the bank more interest than we get on our loan.

Q. You calculate roughly about \$4,500 interest on \$140,000 of Victory Bonds? A. Yes.

Q. Is that \$4,500 a saving or profit? A. It is not saving.

Q. So it must be a profit? A. No. It is not profit either because we just break even on it.

Q. Is it an earning? A. It is not an earning because we have expense that offsets it by paying interest to the bank.

Q. But you do receive coupons to the value of approximately \$4,500? A. Then I would say it is not a net earning.

Q. Is it not an earning? A. It creates a liability at the same time so it is about even.

Q. If you don't want to answer that question I will not press it.

.....

The Commission thereupon adjourned to meet on Wednesday, February 7th at 9.30 a.m.

.....

Winnipeg,
Wednesday,
February 7, 1945.

The Commission met at 9.30 a. m., Mr. Justice McDougall presiding.

MR. PARKER: Mr. J. W. Braithwaite is ready to go on this morning with the brief on behalf of the Manitoba Co-operative Honey Producers Limited.

J. W. BRAITHWAITE,

Manitoba Co-operative
Honey Producers Limited,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. What position do you hold with Manitoba Co-operative Honey Producers Limited? A. I am a shipping member.

Q. A honey producer? A. Yes.

Q. Are you Manager or President or do you hold any official position? A. No. I was the original organizer and President on the Provisional Board, President of the organization from its inception until last year.

Q. How many years of association have you had with this organization? Have you been with it ever since its inception? A. Yes.

Q. And you have been a shipper? A. Yes, every year.

Q. By whom was this brief prepared -- by yourself?

A. The draft was mine, then it was revised in conjunction with our legal advisers, the Board of Directors, the Manager and so forth.

Q. How many shipping members are there? A. 757.

Q. How many are there on the Board of Directors?

A. Seven.

Q. And this brief has the approval of the seven?

A. Yes. It has been submitted to all seven and will be

immediately submitted to the whole of the members. We have not had time.

Q. As to the statements of fact set forth in the brief, as distinct from what we might call argument or inference, are you in a position to say they are true?

A. Yes.

Q. And as to the other statements, you believe they are true? A. Yes.

Q. Will you read the brief. A. The brief reads:

"Submission of the Co-operatives related to the Honey Industry of Manitoba to the Royal Commission on Co-operative Associations and their relation to the Income Tax Acts, composed of Mr. Justice McDougall and Messrs. B. W. Arnason, B. A. Elliott, J. M. Nadeau and J.J. Vaughan.

"Historical Review:

"It is necessary, at the outset, to emphasize the fact that the Manitoba Co-operative Honey Producers Ltd. was organized as a matter of stern necessity, indeed of self-preservation, on the part of the honey producers of Manitoba. Conditions in their industry had become so desperate that they finally realized they must either organize or go out of business.

"This condition became increasingly serious from year to year, and from it there seemed to be neither redress nor escape.

"Honey is a seasonal product, and annual crop being harvested within a few short weeks during the fall of the year.

"During the period from 1930 to 1938 beekeepers in general were hard up. Frequently operating upon credit

during the summer months, many were compelled to market their honey as expeditiously as possible in order to discharge their obligations. In many instances these obligations were to the broker or wholesaler himself, in the nature of advances made for the purchase of package bees, equipment or honey pails with which to produce or pack the crop, and usually included a contract calling for the delivery of honey to the broker or wholesaler concerned. Many beekeepers appreciated assistance of this nature, indeed some could not have operated without it. Nevertheless the fact remains that beekeepers operating under such a system could hardly be considered as free agents where the marketing of their product was concerned.

"Under such conditions beekeepers peddled their product from broker to broker, and from dealer to dealer, generally with progressively declining morale. Finally they were compelled to sell for what they could get, or else accept a partial advance of cash and leave the honey to be sold on a commission basis.

"In order to verify the foregoing I would like to quote in part from a paper presented before the Conference on Markets for Western Farm Products, arranged by the Government of Manitoba, and held in this city from December 12th to 15th inclusive 1938. This paper was prepared and presented by myself as President of this cooperative, which was in the process of organization at that time.

'Markets for Western Farm Products
'The Honey Industry and Markets for Honey
.....

'In Manitoba during the past eight years, bee-keeping conditions have become worse and worse, and honey prices have declined far more seriously than prices of similar lines of foodstuffs, and out of all

proportion to the merits of the situation. The average Manitoba carload price for honey during this period has been as follows:

1930-9¢, 1931-7¢, 1932-7¢, 1933-8¢, 1934-8.5¢,
1935-7¢, 1936-6¢, 1937-7¢, 1938-6.75¢ (est.).

'Of all the primary products produced in this province surely honey is the only one with absolutely no semblance of a marketing organization, and with no common idea or policy where the marketing of the product is concerned.

'Speaking generally, beekeepers as a class are not in good financial circumstances. In a large percentage of cases bees themselves, supplies and equipment, and also honey containers are obtained upon credit, with the result that producers have usually no option but to sell their honey immediately it is extracted in the late fall of the year. This results in a glut upon the local market, a buyers' market with all that this implies when the sellers are many and unorganized, and an inevitably lower price than that which conditions warrant.

'Marketing conditions have not been improved by the variation in quality and preparation of the product. Grading regulations introduced a few years ago have helped to some extent, but these are absolutely ignored by many who produce honey for local consumption, and there seems to be no effort at enforcement on the part of the authorities concerned. As a result, Manitoba honey (at its best, second to none in the world) is offered for sale in varying colours, textures and flavours, usually in fair condition, but all too frequently fermented, dirty and unsavoury samples are

reported, with a tremendous and unfavourable reaction upon the minds of potential honey purchasers.

'Added to this must be noted the fact that honey is packed in all sorts and conditions of containers, and that the sizes most generally used in Manitoba are out of line with those used for the comparable products of jam and syrup. The buying and selling of honey within the province (chiefly confined to the city of Winnipeg) has been for some years a most unethical business, with unfair dealing and chiselling on both sides. In many instances brokers and wholesalers have not given beekeepers a reasonable break, but it must also be recorded that in all too many cases the beekeeper has been the worse offender of the two, and that buyers have not received quite a fair deal, while over the whole business there exists an atmosphere of fog and uncertainty.

'In the case of Manitoba honey marketed outside the province a similar sad story must be told and complaints have been received from Saskatchewan, Alberta, British Columbia and Ontario at the low prices at which carlots of Manitoba honey have been dumped upon the markets of those provinces to the detriment of their own beekeepers. Similarly on the export market the Canadian Trade Commissioner reports price cutting and offerings below the market level on the part of certain brokers, which has resulted in Canadian honey selling at levels unattractive to shippers in Canada, and which at the same time seriously affected the position of importers into the United Kingdom.

'AS A RESULT OF THE PRACTICES OUTLINED ABOVE,
AND OTHERS TOO NUMEROUS TO MENTION, THE MARKETING OF
HONEY IN MANITOBA HAS REACHED A SITUATION AND CONDITION
WHICH IS DESPERATE INDEED.'

"Such then was the condition of affairs in the honey
industry in this province in December 1938, before the
Honey Co-op got under way.

"The Organizing of the Cooperative:

"For some years prior to the 1937 convention of the
Manitoba Beekeepers Association there had been evidenced
at the conventions a growing feeling that something might
be done along cooperative lines to rectify, or at least
better, the difficult sales situation.

"At the 1937 convention the matter came up as usual,
but this time something was done about it. After much
discussion a committee was set up to investigate the
possibilities of such a cooperative, with instructions to
report to the 1938 convention. This committee presented
a very full report at the 1938 convention and after due
discussion it was decided to proceed with the organization of
a cooperative along the lines recommended by the committee,
and based largely upon the set-up of the Ontario Honey
Producers Co-operative organization.

"Steps were immediately taken to set up the new co-
operative organization. By-laws were drawn up and approved,
application for charter was made, and in due time the company
was incorporated under the name of Manitoba Co-operative
Honey Producers Limited,

"It should, however, be noted that some of the provision-
al directors of the Manitoba Co-operative Honey Producers
Limited approached several companies interested in the market-
ing of honey as to whether they would undertake to establish

a central packing processing plant, or assist financially if sufficient funds could not be collected from individual honey producers. They were in favour in principle but would not provide financial support. Assistance, however, was obtained after much investigation, from the Manitoba Provincial Government who guaranteed a bank loan of \$10,000 fully secured by bill of sale covering plant and office equipment. This loan was duly repaid in full, as additional share capital became available.

"Aims and Objects of the Cooperative:

"Briefly stated the aims and objects of the cooperative were as follows:

"(a) Standardization and Improvement of the Product.

"It has already been pointed out, not only that honey varies in flavour, colour and texture to a considerable degree, but also that under certain conditions honey in its natural state is liable to ferment and sour.

"As a result of this, serious losses had from time to time been experienced on the part of the merchandising trade, which sometimes carried large stocks of honey for considerable periods of time.

"Not infrequently stocks of unsavoury honey were actually passed along to the consuming public by short-sighted or misguided retailers, resulting in a very unfavourable reaction to our product on the part of the discriminating housewife.

"The principal objective of the cooperative therefore, was to blend and process (pasteurize if you like) the honey received from its members, so that a high quality standard product, uniform in flavour, colour and texture, and no longer subject to fermentation would result.

"The sponsors of the cooperative were satisfied

that such a product, packed under registered brands in attractive containers, with an unconditional guarantee as to quality and condition would command a premium upon the market. It would also create increased consumer demand and eliminate loss and dissatisfaction hitherto explained.

"No such plant existed in the province at that time, neither have any others since been established, so that our cooperative, pioneering in this field, did not then and still does not conflict or compete with any similar existing organization.

"(b) Orderly Marketing.

"To eliminate the unwarranted depression of prices experienced each fall resulting from the competitive sales efforts of hundreds of Manitoba beekeepers and to establish a continuity of supply to dealers and consumers, thus stabilizing the honey market throughout the year.

"(c) Package Bees and Supplies.

"Just as the sale of honey, prior to the formation of the cooperative was on a very unsatisfactory basis, so also was the supply of bees and equipment necessary to the beekeeper in the pursuance of his avocation.

"Large quantities of package bees were brought in from the southern states each year, through a multiplicity of agencies all seeking to make gain from this activity, though all too often little concerned with the quality either of bees or the service rendered. Equipment and supplies of all kinds, metal, wood and wax were shipped in from the East at relatively high prices until recent years when they were manufactured locally.

"The founders of the cooperative, therefore, made due provision in their charter for the handling of package

bees and supplies for the benefit of the beekeepers in the province.

"Incorporation and By-Laws:

"The Manitoba Co-operative Honey Producers Ltd. was incorporated on the 6th of April, 1938, under Part VI of 'The Companies Act' SM 1932 Cap-5 as a cooperative on a non-profit basis. The letters patent state that the object of the company is to 'carry on the business of producing, grading, buying, processing, packing, advertising, selling and manufacturing and dealing in honey and other agricultural products and supplies on the cooperative plan.'

"Copy of by-laws as amended to date attached hereto.

"Capital Structure:

"The authorized capital stock consists of 2,500 shares with a par value of \$20 each.

"One share valued at \$20 entitles the member to ship 2,000 pounds of honey to the cooperative annually. Those shipping in excess of the 2,000 pounds are required to hold share capital to the extent of 1 cent per pound of honey shipped in any single crop year. Payment of capital may be made either by cash, or by a deduction from the initial payment for honey delivered.

"For the period 1939 to 1941 the capital stock of the cooperative was insufficient to provide the necessary working capital. In these two years the members provided additional working capital to the extent of \$8,490.21. These reserves have been set up as deferred payments, allocated to members who delivered honey during those two years, at the rate of .361 cents per pound on the 1939, and .668 cents on the 1940 crops.

"The original by-laws provided for payment of interest

at 5 per cent per annum on the paid-up capital stock of the Association. The by-laws were amended in July, 1941 at the annual shareholders' meeting to eliminate all interest payment on share capital.

"Voting Power and Membership Control:

"Membership in the cooperative is open to anyone, subject only to the approval of the Board of Directors, but there is no inducement for anyone but honey producers to join, as there are no direct benefits to anybody else."

After the words "subject only to the approval of" I wish to add the words "a signed application for membership by", so that it will now read: "Membership in the cooperative is open to anyone, subject only to the approval of a signed application for membership by the Board of Directors, but there is no inducement for anyone but honey producers to join, as there are no direct benefits to anyone else." The brief continues:

"The constitution stipulates one vote per member regardless of the number of shares held, and no proxies are permitted except in the case of corporation memberships.

"The direction of the organization is in the hands of seven directors, elected from the members at the annual shareholders' meetings for a three year term on a rotating basis. The directors in turn elect their president and vice-president annually.

"The manager and secretary-treasurer are appointed by the Board of Directors, to whom they are responsible and to whom they regularly report. They also report fully to the members at the annual shareholders' meeting.

"The cooperative has nineteen other employees. No employee has any pecuniary interest in the cooperative apart from the fixed salaries."

The directors receive no remuneration except part-time allowance. Continuing:

"Method of Operation:

"The cooperative has no binding contract with its members relative to the volume of honey delivered. The shipments of honey are on an entirely voluntary basis.

"The Co-op. does not pay patronage dividends but makes an accounting to its members each year on the following basis:

"An initial payment is made to members at the time of delivery of honey which is arbitrarily fixed each year by the Board of Directors and rarely exceeds 50 per cent of the then market value.

"The initial payment varies according to grade and class of honey delivered. There is no variation in subsequent or final payments.

"The second payment is declared and paid approximately in January. This second payment likewise is arbitrarily fixed by the directors.

"The third and final payment is determined by taking the total receipts of the cooperative and deducting therefrom the actual operating expenses plus reserves for depreciation and possible bad debts. The remaining balance is distributed to members in strict proportion to their honey deliveries.

"Our returns to members for Grade 1 honey for our five years of operations have been:-

Crop	Initial	Second	Final	Total
1939	3.0¢	1.0¢	2.25¢	6.25¢
1940	5.0¢	1.0¢	3.0¢	9.0¢
1941	4.0¢	1.5¢	3.25¢	8.75¢
1942	5.0¢	3.0¢	5.25¢	13.25¢
1943	7.0¢	3.0¢	5.25¢	15.25¢

"The cooperative has no surplus outside of the infinitesimal amount represented by the small indivisible balances. For the entire five-year period this totals approximately \$500. With this exception all monies have been allocated or paid to individual members.

"The additional working capital provided by the members from deferred payments for the 1939 and 1940 crops, and which has all been allocated to members' accounts, will be paid out to the members concerned as soon as the share capital subscribed by the members of the Association is considered sufficient to warrant such action. The working capital contributed in 1939 and 1940 was with the unanimous approval of the members at the annual meeting.

"Services Rendered:

"During the past six years of successful operation the Manitoba Co-operative Honey Producers Limited has fully justified the hopes and aspirations of its founders and substantiated the pre-natal claims made by them on its behalf.

"Whilst the progress of the organization may not have been spectacular, it has been steady and inspiring, and has afforded a deep and peculiar sense of satisfaction and pride to its members and friends.

• "(a) Standardization and Improvement of Product.

"Manitoba Co-operative honey, under the registered name of 'Clover Crest', in the familiar yellow and gold tin, with the Satisfaction or Money Back guarantee inscribed on every lid, is now seen on the shelves and display counters of stores everywhere, city and country alike.

"When the initial difficulty of introducing our honey, at higher than the prevailing prices, was once overcome, 'Clover Crest' immediately jumped into favour

with storekeeper and housewife alike, and it is now a general favourite.

"Before war restrictions resulting in an increased demand for sugar substitutes focussed attention upon honey, a discerning public had already noted the merits of 'Clover Crest' and learned to specifically request it. Dealers no longer require to purchase a year's supply of honey in advance, but now order their supplies regularly along with other staples from the wholesaler or jobber, so that for them the element of risk and loss has been entirely removed. By a systematic year-around programme of processing and sales distribution, dealers are now assured (subject always to the restrictions and exigencies of war) of a continuity of honey supply. Many of them no longer purchase direct from beekeepers, preferring the more reliable co-operative product with its freedom from fermentation dangers.

"(b) Increase Returns to Producers.

"The relief afforded to the independent market every fall by the large percentage of honey taken into storage by the cooperative, has almost entirely eliminated the erstwhile annual glut, with attendant disaster to price levels. Honey returns to all producers, cooperative members and independents alike, have materially increased since the inception of the Honey Co-operative. Cooperative members received 15.25 cents per pound, net F.O.B. shipping point, for their 1943 crop, in comparison to 5 cents or less, even if able to make sales at all, in 1938. Whilst much of this increase in price is due to war conditions we feel that we can claim with justification that a considerable percentage of it is due to the influence and operations of this and sister Honey Co-operatives in other provinces both east and west.

"Final returns to members since the inception of the cooperative have been as follows:

1939 crop	6.25¢ per lb.
1940 crop	9.0¢ per lb.
1941 crop	8.75¢ per lb.
1942 crop	13.25¢ per lb.
1943 crop	15.25¢ per lb.

"Each successive year these returns to our members have been higher than the average received by honey producers who marketed honey apart from the cooperative. Schedule A attached summarizes the financial results from inception. It demonstrates the high percentage of gross income returned to the shippers and the infinitesimally small amount unavoidably retained.

"(c) Provision of Package Bees and Supplies:

"In the handling of package bees, queens and all kinds of equipment and beekeeping supplies, much useful service has been rendered, and the cooperative has made available, and carried in store, for Manitoba beekeepers generally, much larger quantities of these essentials than would otherwise have been possible. Two years ago there arose a grave danger that the supply of package bees available from the United States would be inadequate to fill provincial requirements. The cooperative commissioned its Manager to visit many of the more reliable shippers at their homes in the southern states, and as a result of this personal contact it was possible to arrange for much larger shipments of bees than would otherwise have been obtainable.

"(d) Non-Pool and Custom Processing and Packing.

"The cooperative occasionally buys honey from non-members. Particularly in the earlier years the co-

operative was forced to buy honey to prevent unduly depressed prices when honey was being dumped upon the open market. Unless this honey had been so purchased returns to all beekeepers -- members and non-members alike -- would have been decreased. For the year ending May 31, 1940, this non-pool honey amounted to approximately one-third of the volume handled. This percentage of non-pool business has steadily decreased and was only one-tenth of one per cent of the 1943 crop.

"From time to time various dealers have had honey which they desired processed and repacked. Usually this has been honey in large bulk containers when the demand has been for the smaller consumer pack. The cooperative has rendered this additional service to the trade on a custom basis.

"In short the Manitoba beekeepers, through their own cooperative have made the entire honey industry of Manitoba a much healthier, happier occupation.

"By improving the returns to honey producers, by supplying beekeepers requirements, by eliminating losses formerly experienced by dealers, wholesalers and retailers, and by supplying a uniformly high standard product for the consumer, they have revolutionized the industry and placed it upon a much higher plane.

"Growth and Development:

"The total number of beekeepers in Manitoba in 1944 was estimated to be 4,000 of which 1,300 are producing over 1,000 pounds a year, and total honey crop in Manitoba is approximately 5,000,000 pounds, of which approximately 3,000,000 pounds appear on the market."

The cooperative had 757 members and received over 2,000,000 pounds of honey. Continuing:

"The cooperative, therefore has over 57 per cent of the commercial beekeepers in its membership and handles approximately 66 per cent of the marketable honey.

It has already been stated that the founders of the cooperative intended the organization to perform the dual function of supplying the beekeepers' needs, and looking after the disposal of his honey. Definite progress has been made in both directions as the following figures will demonstrate:

Membership

June 1, 1939	449 members
Dec. 31, 1944	757 members

"Paid up capital stock has increased to approximately \$39,000. Total sales of honey, package bees and supplies approximated \$525,000 during this crop year, details of which are shown on Schedule B attached hereto. In the five-year period we have returned to producers a total of approximately \$543,000.

"In explanation of the apparently unduly large non-member business it may here be pointed out that much of the One Million Six Hundred and Seventy-five Thousand pounds of honey delivered during the first year of operation, represented producers' UNSALEABLE carry-over stocks from the previous year. Sale of the 1938 crop bogged down completely, some sales were reported at 3.75 cents net, other producers could not sell at all. The cooperative took a lot of this 'distress' honey off producers' hands. Some was delivered as contributions to share capital; some, the cooperative was compelled to purchase outright in order to relieve a depressed market; some, it took into the 1939 pool and for this honey producers finally received 6.25 cents per pound.

"Increase in values of package bees and supplies is due to some extent to price increases. Even so the increase in volume of these commodities has been definite and consistent from year to year. This clearly indicates the place the cooperative has increasingly occupied in the minds and in the confidence of Manitoba beekeepers.

"Conclusion:

"1. Chaotic honey marketing conditions and depressed prices prior to 1939 occasioned grave dissatisfaction among beekeepers of Manitoba.

"2. The organization of a cooperative enterprise on similar lines to that existing in Ontario appeared to offer the only satisfactory solution.

"3. The Manitoba Co-operative Honey Producers Limited was organized to improve the returns of individual members and not for corporate profit.

"4. The growth and development of the organization provides conclusive proof of the satisfactory results achieved.

"5. It may also be of interest to note that similar action has since been taken by the beekeepers in Saskatchewan and Alberta. Subsequently the provincial organizations were successful in establishing the Canadian Beekeepers Council, whose aims and objects are to improve the bee-keeping industry on a national basis."

BY MR. PARKER:

Q. Will you let us have, later, copies of your financial statements? A. With pleasure, sir; anything you require.

Q. From the start? A. Yes.

Q. You can send them to the Registrar. A. Yes. We will attend to that.

Q. I fail to notice in your brief any reference to the question of income tax. Is that correct, do you recall?

A. Mr. Chairman, I am just a honey producer.

Q. I realize that. A. I would hate to get involved in any argument with reference to income tax, but I have discussed the matter on several occasions with the Board of Directors of the Co-operative Honey Producers and I think I can express their opinion on the subject if you care to have me do so.

Q. I dare say I could anticipate their view, that they should not pay. A. I would like to give you what I consider their own feelings, very briefly, seeing that you have raised the point.

Q. Very well. A. We in the Honey Co-operative are not opposed to the principle of personal income tax. Equitably applied, we regard it as the fairest method of taxation; but I believe I have successfully demonstrated that our cooperative has no income of its own. It is merely the trustee for the members, who not only comprise it but are in fact the cooperative. All net revenues are paid to them. Every member is responsible for filing his or her individual income tax returns and those members who are properly in the income tax bracket of necessity pay what is required of them. Thus no part or portion of the revenue of Manitoba Co-operative Honey Producers Limited escapes legitimate taxation at the proper time and place, and so far as we can see there can be no fairer arrangement than this. I hope I don't stick my neck out. Our Counsel did not say that, or anyone else.

Q. In the first two or three pages of your brief you give a very fair picture of the condition of the honey producers during the years preceding your incorporation, which

I can generalize by saying that it was a deplorable condition -- prices were down, the product was not uniform, and so on, as you have described? A. Yes.

Q. All of which was the fault of the producers themselves, the way they were marketing, the kind of containers they were using, and so on. All that was within their own control? A. It was out of their own control.

Q. Was it out of their own control as to how the produce should be packed? A. Yes, more or less, because they could only buy certain kinds of containers.

Q. Was there anything to prevent them ordering any kind of containers they chose to ask for? A. That was lack of organization.

Q. The farmer acting on his own? A. Yes.

Q. So that there was a situation that had to be met? A. Yes.

Q. Do you contend that organizing cooperatively was your only solution to that situation? A. A few of us got together and that was the only solution that appeared to us. We did not see anything else that could be done.

Q. Had you got together on a different basis, can you see any reason why, without incorporating at all, by assisting each other in groups or by incorporating as an ordinary company with what little capital you could get together you could not have accomplished all these things that you say you have done under the other method? A. No.

Q. Why? A. Because in the first place we did not have the organization and could not possibly have raised the capital. We had great difficulty raising it.

Q. Did you look into the question of how much it would take? A. I stumped this province from one end to

the other to try to raise money. We went to the honey producers.

Q. And you also went to the brokers, I take it, or other sources where capital could be obtained and could not get assistance? A. We went to the brokers and wholesalers who had complained to us continually about the condition of our product. Two or three of them had said, "If you fellows would get together and do something about improving your product, and buy a processing plant, we would gladly put some money into it." Well, I had the privilege of going around to get them to redeem those pledges when the time arrived, and I would like to tell you what they said.

Q. You can leave that to our imaginations. I merely wanted to bring out whether there was any other way that you could have gone about it, or whether this cooperative way was the only solution for the honey business. You think it was? A. Yes; I am satisfied it was.

Q. Do you think you would have been as successful as you have been if the cooperative had been paying income tax such as corporations pay on these reserves or surpluses and patronage dividends? Suppose these had all been placed in the tax column and you had been compelled to pay on that basis. A. I don't know exactly what you mean by successful.

Q. I mean this. You would have got the same returns, net returns? A. To the producer?

Q. To the producer? A. No. I don't see how we could have, but I believe we might have received the same amount of support.

Q. Are you in a position to state fairly accurately how much more the producers who market through this cooperative receive for their honey than the other producers

in the province situated similarly in similar localities get for theirs, marketing elsewhere? A. No. Sometimes it is a fraction of a cent, sometimes two or three cents, depending on the period of the year.

Q. The difference between what they get and what you get? A. It would depend on when the individual producer sold.

Q. I assume he would sell when the market was best, the same as your people? A. Except that he is under duress sometimes.

Q. There would not be a great deal of difference, I suppose? A. Five cents a pound would make a difference.

Q. And if it was 7 cents it would be a lot more. Do you know what it was? A. When?

Q. I am asking how much more the producers of honey, who are not members of your cooperative, get for their honey on the average than your men get. A. I could not give you a figure.

Q. Have you any knowledge that they get any less? A. Yes, we have. We know of individual cases, and our manager and directors and members generally keep in touch with these things and know what their neighbours and friends get.

Q. If that is so, why don't they all come in? Why do they keep on producing honey the other way? A. Because there are always independents who prefer to let the other man do the work and they ride on their backs and reap the benefit.

Q. How do they receive a benefit if they get two or three cents less than they would be getting if they joined with you? A. There is always the odd one who sells at the peak of the market or puts out a special product and gets

a higher price.

Q. About a third of the total must be doing that because you have only 60 per cent. What about the other 40 per cent or so? A. We have the majority of the larger honey producers.

Q. But you have only 60 per cent of the total production. Why does that other 40 per cent not get into the same business if they could get 5 cents more? A. Some sell to the local storekeeper and some have had contacts over a period of years with sales organizations in different provinces and still like to ship to individual markets. But we are getting them increasingly from year to year.

Q. I should think you would, on that basis. Has your association ever paid income tax? A. No.

Q. Have you ever filed returns? A. Every year.

Q. In those years when you did a large portion of buying and selling other people's honey, did you make those returns? A. Yes.

Q. In one year you did 40 per cent of non-member business? A. In the first year of operation.

Q. You were not assessed? A. No.

Q. And in the succeeding years you kept doing less and less non-member business? A. Yes.

Q. For how many years did you do over 20 per cent -- one or two? A. Two at the most.

BY MR. NADEAU:

Q. Do you pay interest on your deferred payments?

A. No sir. We pay no interest.

BY MR. ARNASON:

Q. In financing your initial payment which you make on honey delivered by your producer members, have you ever taken advantage of the provisions of the Dominion Agricultural

Products Marketing Act? A. Yes. We did during at least the first two years of operation.

Q. You do not do that now? A. No, because as our position improved we felt it was not necessary in the first place; and the second reason was that the guarantee was not large enough, the price that they would guarantee or allow us to pay. That guarantee was not as high as we felt we had to pay.

Q. That guarantee, you say, was not enough. Why did you not think it was large enough? A. Because conditions were improving largely as a result of our operations. The honey market was getting stabilized. The surplus had been taken from the market and the attraction to sell outside the cooperative was maybe better than it had been in the first year and we felt we had to pay a larger initial payment than we had done. That was the reason substantially. We had to give our members something worthwhile on the initial payment in order to get their money, because they were hard up and they always had payments to make immediately they harvested their crop in the fall.

BY MR. PARKER:

Q. In reference to bee supplies, on what basis do you buy and hand them over to the growers -- at cost?

A. At cost.

Q. Or do you charge them the going price and add a little trade discount at the end of the year when you are settling up? A. It would be difficult to say what the going price is going to be at the time we set prices, but we do set them approximately at what we feel the going price will be. I say we sell at cost, but these prices do not take into consideration at all the overhead involved in the handling of these supplies.

Q. You sell to them at less than cost? A. No; I would not say that.

Q. Do you fix a price on the supplies on such an estimate that these supplies will bear their proportionate share of the corporation's operating cost? A. That is right.

Q. Why did you stop paying interest on share capital? A. There were several reasons. In the first place, I was largely responsible for the organization of this cooperative. In my earlier years I was employed by cooperative enterprises in England and memory of it was very vivid, so that I knew distinctly that their first responsibility was said to be the payment of 5 per cent interest on share capital. That was so in the society I worked for, and naturally we assumed that was the thing to do in Manitoba.

Q. As regards that expense, how did you begin paying it? A. I would like to say that we had the greatest difficulty in raising share capital in the first place, and we invited subscriptions, payments on share capital, from anybody who might care to come in.

Q. Not necessarily honey producers? A. No; and naturally we offered an inducement of 5 per cent interest on share capital. Later on, however, we felt that it was no longer necessary to pay interest on share capital. In my own instance, I have a fair amount of share capital in there, but of what use is it to me to receive interest on it? If I do, I receive that much less on my honey.

Q. Exactly. We have heard very often in this inquiry certain statements in that regard and perhaps you can help us on the point. It has been said that these cooperatives do not get -- and they leave the inference that they do not want -- interest on share capital. Do you agree with that?

Do I understand you to state that instead of receiving it as interest on share capital they get the same thing or a little more on the return for their products? A. If they deliver honey. But we still have some of the original members who do not deliver honey and still they have share capital with us. I don't hear them squeal.

Q. But on what principle of equity can you justify the canvassing of these people for share capital on the assurance that you would give them interest at 5 per cent, and then afterwards deciding by a majority that they would get no more? A. That is the only way to justify it, that it is decided by the majority.

Q. And the minority have to accept it? A. They were informed at the annual meeting. After all, the majority rules. We have not many of those members, however.

BY MR. ARNASON:

Q. Have you made any arrangements to repurchase the share capital of members who are not honey producers in view of the fact that you discontinued the payment of interest on share capital?

BY MR. PARKER:

Q. What happens to a member if he goes out of the honey producing business, if he wants to retire? What happens to his share capital? A. During the last three years, at practically every board meeting that I have attended, we would have applications from producers who were discontinuing bee-keeping, or from the representatives of persons who had died, asking that their shares be transferred to some other bee-keeper who had taken over or was willing to take over.

Q. And that is usually granted? A. Yes.

Q. Suppose a member said, "I want my share of the

capital back and I cannot find a buyer." A. Unless it were on compassionate grounds we would turn it down.

Q. Why? A. Because at that time we were not in a position to do otherwise.

Q. But now that you have got thoroughly established, suppose a man wanted to go south; suppose he wanted to take all that he could get together and he said to you, "I want my share capital and my share of the hold-back." What would you do? A. At the present time the board would give that appeal very sympathetic consideration and arrange a transfer to some other bee-keeper.

Q. But unless it could be arranged he would have no right to demand his share? A. He cannot demand it in any other way.

Q. It depends on fair treatment accorded him -- by whom? A. The Board of Directors.

Q. Or the shareholders? A. Usually the Board of Directors.

Q. Is there any appeal from the directors to the shareholders? A. No appeal has ever been necessary.

BY MR. ELLIOTT:

Q. You say that some purchases are made from non-members. How does the price paid to the non-member compare with the initial payment made to the member? A. I am afraid I would have to get the Manager to answer that question. These things are left pretty well to the jurisdiction of the Manager. Our Manager is here.

THE CHAIRMAN: How do you distinguish between the amounts paid and allocated to your individual members?

THE WITNESS: How do we distinguish on our records?

THE CHAIRMAN: Yes.

THE WITNESS: We have a personal ledger for every member,

which shows the amount of honey he has delivered and his credit, the amount paid out and the amount still remaining allocated; but we have no revolving fund.

THE CHAIRMAN: You have no revolving fund?

THE WITNESS: No.

THE CHAIRMAN: As regards the portion allocated to him, can he compel payment of that at any time?

THE WITNESS: I don't know, sir. I could not answer that.

THE CHAIRMAN: You have no experience.

THE WITNESS: No. In the past three years we have paid out every cent of reserve except a small amount we could not divide last year -- \$200 or so.

BY MR. ELLIOTT:

Q. Your by-laws provide that a member may be expelled. Has that power ever been exercised? A. Never.

BY MR. VAUGHAN:

Q. In your schedule B, under the heading "Volume of Sales", you have an amount of \$360,000 for 1945 and you have an amount of \$125,000 for "Package Bees". Will you explain what that particular item is -- package bees?

A. A large percentage of the bee-keepers these days do not winter their bees. They kill them in the fall and buy new bees in packages from the southern states in the spring.

Q. And to whom do you sell these bees? A. To individual members and bee-keepers generally.

Q. Your general by-laws provide, in No. 8: "No member shall be liable for debt owing by the Association beyond the sum remaining unpaid on his subscription for shares." Does that mean that the members take all the profits but that if there is a loss, so far as the creditors are concerned, they are not responsible? A. I don't know that

I can answer that. I understand that the member or shareholder in a limited company is only responsible to the extent of his own particular share. Isn't that right?

Q. Do you put this Association on the same basis?

A. That is right. We are a limited liability company.

Q. You say that everything is owned by the members. It is the members' business; all assets belong to the members. A. What exactly is the question?

Q. The assets of your Association belong to the members? A. Yes.

Q. And all profits made belong to the members? A. There are no profits.

Q. Or earnings -- I am not sticking to that word. Whatever it is, that belongs to the members? A. Yes.

Q. Yet the Association is a limited company? A. Yes.

Q. And the members are not responsible in case of a deficit? A. That is right.

Q. Does that seem right? A. I don't know anything about company law, but isn't that the common practice? In a corporate organization each member is responsible only to the extent of his own individual share.

Q. And you want to place your Association on the basis of a limited company when it comes to liability, but on the other hand you do not put yourselves in that category when it comes to dealing with profits or earnings. You say the earnings belong to the members. A. That is so. We don't visualize going broke. We have a pretty good financial standing.

Q. But that is not the point. A. For the rest of the question I must refer you to Mr. Scarth.

Q. We are not anticipating that you will go broke, but if you do go broke you are not responsible, the members

are not responsible, neither is the corporation?

A. I guess we would be responsible, the Board of Directors and the members, though the individual member would not be involved in a financial liability beyond the extent of his own share capital.

THE CHAIRMAN: That is the principle of limited liability.

THE WITNESS: As I understand it.

THE CHAIRMAN: Which is the main feature of incorporation?

THE WITNESS: Yes.

BY MR. ELLIOTT:

Q. The shares may be paid in cash or by deductions from the amount allocated or apportioned to the members. Actually, how have most of the shares been paid?

A. In the first place considerably in cash, or I would say in part in cash. The way in which it works out now, honey is delivered in odd amounts. The shareholder or member may have a \$20 share which allows him to ship in 2,000 pounds of honey. He may ship in, however, 2,100 pounds, in which case we would retain \$1 for the hundred pounds extra, and next year he can ship in 2,100 pounds; but if he ships 2 tons we have to collect \$40. That applies only once. The shipper has got to hold share capital to the extent of one cent per pound on his deliveries to the plant and once that is put up it is good for all future shipments, so that \$20 once paid will allow that man to ship a ton of honey every year; but immediately he ships in excess of that, one cent per pound is retained on the excess.

Q. And if his shipments later diminish?

A. That share capital up to the present stays there.

BY MR. SCARTH:

Q. Mr. Parker asked you why all independent persons did not join the Association. Is it not a fact that many persons are not prepared to wait until the end of the year to find out what the final payment will be? A. That was very much so especially in the first years. That situation is easing a little now but it does enter into the picture.

Q. That is one of the factors? A. Absolutely.

BY MR. THORVALDSON:

Q. Are you the only company here that is in the business of selling package bees? A. No; there are others.

Q. You make sales to bee-keepers generally, of package bees and supplies, whether members or non-members? A. Yes.

Q. You said that your non-member business was only one tenth of one per cent. Does that include the business in package bees and supplies? A. That particular figure refers to honey.

Q. Do you do any amount of non-member business in respect of package bees and supplies? A. I don't know.

Q. Could your Manager reply to that? Would he know? You do not know at any rate? A. No. It might be a little difficult to get that. It would involve a bit of clerical work.

Q. I take it you have two classes of membership. There is the \$20 share, and large producers are compelled to buy an additional share or shares. A. Yes, but the membership is the same.

Q. In any event, some of your producers are required to purchase additional shares? A. On the basis of their deliveries of honey.

Q. On page ten you speak of your working capital. You will find it at the top of page ten. Is your working capital determined by the directors or the shareholders -- the amount you desire to have in the working capital?

A. To a certain extent it is more or less automatic. It is increasing from year to year because our business is increasing and we retain one cent a pound from the members, one cent per pound to the extent of honey delivered. But that is not for one year.

Q. For how long have you retained that? A. We have retained it from the inception.

Q. One cent per pound on every pound? A. One cent per pound once. If I deliver a ton of honey this year and I am a new member I contribute one cent per pound, which sets me up a \$20 share. I then deliver a ton of honey every year on the strength of that same \$20 share.

Q. So that the share capital is deducted from shipments? A. Unless it has been paid in cash.

Q. On page eight you refer to the question of membership. You speak of corporation memberships. A. The only reason that was put in was because there is the odd case where we have three or more bee-keepers who join together in a partnership and we allow one of these three. That would apply to Hutterite colonies.

Q. They are corporations? A. Yes.

Q. How many corporations have you? A. I could not answer that.

Q. You have some? A. If we have them they have only come in in the last year or two, or only within the last year. That accounts for some of the non-membership honey or honey sold outside our organization. Quite a percentage of that belongs to these colonies.

Q. For only two years, you said, you had done more than 20 per cent of non-member business. A. I could not be sure.

Q. When you did more than 20 per cent did you pay income tax? A. No.

Q. Even at the time when, according to your own statement, you did more than 20 per cent non-member business? A. That is right.

Q. And you were not assessed for those years either? A. That is right. We have never been assessed.

BY MR. SCARTH:

Q. Did you have any surplus in those years? A. We have paid everything back to our members with the exception of those two small amounts, \$8,000 in all.

F. R. GARLAND,

Manitoba Co-operative
Honey Producers Limited,
having been duly sworn
testified as follows:

BY MR. ELLIOTT:

Q. When you buy honey from a non-member, how does the price paid him compare with the initial price paid the members in that year? A. The amount paid on straight outright purchases is usually about twice the initial payment. I think it is stated in the brief that the initial payment to our members usually approximates 50 per cent of the then market price.

Q. So that you pay the non-member the then market price as nearly as you can approximate it? A. Yes, and provided we want to buy at that price.

Q. Do you accept shipments from any non-member who asks you to buy? A. If we are interested in purchasing

honey at the price at which he is willing to offer it.

BY MR. THORVALDSON:

Q. How many corporation members have you?

A. I would estimate approximately 15, and they are practically all the Hutterite colonies. Practically all our corporations are Hutterite colonies.

Q. Mr. Braithwaite stated that your non-member business was one tenth of one per cent. A. That referred to the volume of non-member honey business in 1943.

Q. So despite the fact that you are willing to purchase from anyone, non-member business as to purchases is very small? A. It has steadily declined.

Q. What about the sale of supplies, bees and supplies, to non-members? Mr. Braithwaite says the sales are to beekeepers generally. A. Yes. I would estimate 75 per cent of package bees and bee supply business is done with our own members.

Q. So that there would be 25 per cent non-member business in that? A. Yes. When combined with honey it would be considerably less.

THE CHAIRMAN: That concludes the brief.

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MR. PARKER: We will now take No. 254, the Pool Insurance Limited.

MR. MILLIKEN: There are two submissions which will be presented by one witness. They are both subsidiaries of those that operate in Winnipeg and it will be no disadvantage to you if you have not heard the Wheat Pool case before hearing these.

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ROBERT M. DANSER,

Manager,
Pool Insurance Ltd.
and
Pool Insurance Company,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. What is your occupation? A. Manager.

Q. How long have you been Manager? A. Since incorporation.

Q. When? A. In 1939.

Q. I notice the brief is headed "Pool Insurance Ltd. and Pool Insurance Company." What is the difference between them? A. There were two companies. Pool Insurance Ltd. was first organized as a provincial company and then the Dominion company superseded it.

Q. Which is the present company? A. Pool Insurance Company.

Q. Is not the word "Limited" part of the name?
A. No.

Q. How was it incorporated? A. By special act of Parliament.

MR. MILLIKEN: That will be clear when the brief is read.

BY MR. PARKER:

Q. Was this brief prepared by yourself? A. With the aid of Counsel.

Q. Are the facts set out therein within your own personal knowledge? A. Yes.

Q. Are they true? A. Yes.

Q. Will you read it? A. It reads:

"Submission of Pool Insurance Ltd. and Pool Insurance Company
to
Cooperative Taxation Commission -- 1945.

"1. The three provincial wheat pools of Manitoba, Saskatchewan and Alberta early recognized that an important item in the cost of handling grain was insurance. They considered the feasibility of carrying their own insurance by placing money in a fund equal to the premiums they were paying for insurance. This procedure, however, would not meet the requirements of the Board of Grain Commissioners. That body must approve of all insurance carried on grain by licensed elevator operators, and naturally insisted upon insurance being carried with properly organized companies. Accordingly the wheat pools determined to form their own insurance company with a view to effecting for their members whatever savings might accrue therefrom.

"2. In the month of May, 1939, the three marketing organizations, namely, Manitoba Pool Elevators Ltd., now Manitoba Pool Elevators; Saskatchewan Co-operative Wheat Producers Limited, now known as Saskatchewan Co-operative Producers Limited, and Alberta Wheat Pool, incorporated an insurance company under the provisions of the Manitoba Companies Act. The Company was known as Pool Insurance Limited. The Company had an authorized capital of Three Hundred Thousand (\$300,000) Dollars, divided into three thousand shares of One Hundred (\$100) Dollars each. This was subsequently increased to Five Hundred Thousand (\$500,000) Dollars, divided into five thousand shares of One Hundred (\$100) Dollars each.

"3. Three shares of stock were allotted to three directors of Manitoba Pool Elevators Ltd., three to three directors of Saskatchewan Co-operative Wheat Producers Ltd.,

three to three directors of Alberta Wheat Pool, six hundred and sixty-five (665) to Manitoba Pool Elevators Ltd., six hundred and sixty-three (663) to Saskatchewan Co-operative Wheat Producers Ltd., and six hundred and sixty-three (663) to Alberta Wheat Pool.

"4. The original by-laws made no reference to refund of excess charges or payment of patronage dividends, but by an amendment passed January 5, 1940, Article 38 of the general by-laws was amended as follows:

'Any part of the profits or surplus earnings of the Company may be paid or credited to such members of the Company or classes of members as carry on business with the Company in proportion to the amount of premiums paid to the Company by such members or classes of members during such period or periods of time as the Company may from time to time determine.'

"5. The Company commenced operations on August 1, 1939, carrying fire insurance on the country elevator properties, agents' dwellings, office furniture and fixtures and grain of the said three provincial associations and their allied subsidiaries. It did no business with the outside public. Its financial year ended December 31, so its first year's business was for a period of five months only. Its net surplus for that period was Sixteen Thousand, Two Hundred and Sixty-Six Dollars and Eighty-Two Cents (\$16,266.82) which was distributed as follows:

5 per cent dividend on its paid up capital	\$1,567.18
Held in reserve	5,000.00
Allocated and distributed as a refund of excess charges	<u>9,699.64</u>
	<u>\$16,266.82</u>

The excess charge refund was paid to the three marketing organizations in question in proportion to the volume of business they or their subsidiaries had done with the Company during the five months' period. It was paid to them on the 11th of June, A. D., 1940, in the following amounts:

Manitoba Pool Elevators Limited	\$1,127.26
Saskatchewan Co-operative Wheat Producers Ltd.	6,212.47
Alberta Wheat Pool	<u>2,359.91</u>
	<u>\$9,699.64</u>

The above reserve of Five Thousand (\$5,000) Dollars was subsequently allocated on the same basis and paid to the members on the 9th of December, A. D. 1940.

"6. In due course income tax returns were filed claiming total exemption as a cooperative. In the month of January, 1941, the Company was assessed for the income of the year 1939, the Department holding the Company's surplus to be taxable. In February, 1941, the Company filed a Notice of Appeal against the said assessment. The next step in the appeal must be taken by the Department, and as yet nothing has been done in connection therewith.

"7. In the year ending December 31, 1940, the Company again showed a surplus, which, apart from a five (5 per cent) per cent dividend on the paid up capital stock, was all allocated and on June 12, 1941, distributed to the members on a refund of excess charges basis. Income tax returns were filed claiming the total surplus to be exempt on the ground the Company was a cooperative.

"8. Because of a ruling of the Board of Grain Commissioners to the effect that insurance on grain in licensed elevators must be carried with Dominion licensed companies,

the Company in the year 1940 applied to Parliament for a Charter. The application was granted, and from January 1, 1941, on the Company operated under its Dominion Charter.

See: Chapter 50, S. of C. 1940

At the same time the name of the Company was changed from Pool Insurance Limited to Pool Insurance Company. The capital stock remained at Five Hundred Thousand (\$500,000) Dollars, and the shareholders of the old Company became the shareholders of the new Company, with this variation: the individual shareholders were obliged to hold twenty-five (25) shares each in order to comply with the provisions of the Canadian and British Insurance Companies Act. By Section 3 of the Act of Incorporation of the Company, apart from the qualifying shares of the directors, no shares can be held by anyone other than a cooperative or a subsidiary of a cooperative.

"9. By Section 10 of the Act a director need not hold shares in his own right as is provided by Subsection 2 of Section 6 of The Dominion Insurance Act, but he must be an officer or a director of a cooperative which holds in its own right capital stock of a par value of at least Twenty-five Thousand (\$25,000) Dollars. The shares allotted to the directors are not held in their own right, the money paid for them being supplied by the three provincial cooperative marketing associations.

"10. By Section 8 of the Act, the directors, after allowing for a dividend of not more than Five (5 per cent) per cent on the capital stock, might distribute the balance of the surplus in the form of a refund of excess charges. In this connection it is of interest to note that Paragraph 45 of the general by-laws of the Company reads as follows:

'The Directors may from time to time by resolution declare dividends and pay the same out of the funds of the Company available for that purpose, provided that any part of the profits or surplus earnings of the Company may be paid or credited to the policy holders in proportion to the amount of the earned premiums paid to the Company by such policy holders or classes of policy holders during such period or period of time as the Company may from time to time determine.'

"The subscribed capital stock was Two Hundred and Fifty Thousand (\$250,000) Dollars, held as follows:

9 individual shareholders, 25 shares each	225 shares
Manitoba Pool Elevators Ltd.	759 shares
Saskatchewan Co-operative Wheat Producers Ltd.	758 shares
Alberta Wheat Pool	<u>758 shares</u>
Total	2,500 shares

"The shareholders have paid a bonus of Twelve (12 per cent) per cent on these shares.

"11. For the year ending December 31, 1941, after declaring a dividend on its capital stock of Three (3 per cent) per cent, the remaining surplus was allocated in the form of an excess charges refund. This was paid to the said Associations on May 26, A. D. 1942. In the following years the Company adopted a like course, with the exception that it declared a purely nominal dividend on its capital stock. This it was obliged to do before it could declare a refund of excess charges in order that it might comply with the provisions of Section 8 of its Act of Incorporation. (See: Paragraph 10 above). In each of these years it allocated the entire balance of its surplus in the form

of an excess charges refund and paid the same on June 1, 1943 and May 4, 1944, respectively. In July, 1944, the three marketing associations changed their ownership of stock to more nearly approximate the business each was doing with the Company. Each year the Company has filed a return with the Income Tax Department claiming complete exemption as a cooperative, and to date no assessment has been made in connection with any year of its operations.

"12. We have already noted the three provincial associations entered the insurance business for the sole purpose of reducing the costs of marketing their members' gains. Had they been permitted to set aside a sum equal to the insurance premiums paid by them and use it to pay fire losses, no one would suggest any surplus remaining after the payment of losses would be considered as income. It is submitted that because they were obliged to form a separate company to attain their object, this in no way alters the results secured thereby, namely: to effect savings which are directly reflected in the income of their members. That such savings should be treated as taxable income merely because the associations were compelled to incorporate a separate legal entity would appear to be not in the public interest, because such will tend to discourage the spirit of self-help which must be an important factor in re-establishing the post-war economy of Canada."

I would like to add something to that. In regard to the assessment referred to for the year 1939, we wish to point out that the Dominion Superintendent of Insurance set up in the Blue Book, in the year 1942, \$2,000 under the heading of taxes incurred under the Income War Tax

Act 1917. No amount has been set up out of any other year's operations.

Q. I notice that on page two of your brief you set forth the net surplus for a five-months' period. You have given the figures to show what was done with the surplus. Can you furnish us now with similar figures for the succeeding years? A. In analytical form, yes.

Q. Would it show the same information for succeeding years as for this five-month period? A. The total surplus for the year is shown.

Q. Each year? A. Each year since the Company was organized.

Q. That is, the totals? A. In the last column.

Q. Exhibit 1 is attached to the brief. This shows in the first column \$16,266.82? A. Yes.

Q. That is the surplus for that five months? A. Yes, the first five months of operation.

Q. And that is divided as set forth in the next table? A. Yes.

Q. In this exhibit, the third column, you show the surplus for 1940? A. Yes.

Q. And so on through the brief? A. Yes.

Q. Does this statement show how the surplus was divided in each case? A. No. This statement does not, but I have the information.

Q. In the item just above the bottom figure you have interest on capital and repayment on excess charges? A. Yes. It shows the split-up of interest but does not show split-up of patrons.

Q. Whatever number of patrons there were? It shows what is paid back to patrons in the gross? A. Yes.

Q. Are these amounts divided approximately in the same proportion as the first period or on some other basis?

A. The same basis, but it depended on the income from the various members. That was the basis of distribution.

Q. Was it all paid to those three units? A. Yes.

Q. But not necessarily in the same proportion as the first? A. Not on the same percentage.

Q. Have you the financial statement of the company?

A. Just for 1943. We haven't got them further back but we can get them.

Q. Can you get them and file them with the Registrar -- a complete statement? Can you give us the balance sheet?

A. Yes. When are they required?

Q. As soon as you can get them out. A. It is just a case of typing them.

Q. I understand there are other interests who want to examine them and I suggest they be given an opportunity unless there is some particular question you want to ask, Mr. Chairman.

MR. FILLMORE: Why not let him read the brief of the associated company, Canadian Pool Agencies Limited, and then examine him on both? It would be more convenient.

THE CHAIRMAN: Possibly we could dispense with the reading of the other brief if they are identical.

MR. FILLMORE: No, they are not.

MR. PARKER: I see no objection to his reading it.

THE WITNESS: The brief of Canadian Pool Agencies Limited is as follows:

"Submission of Canadian Pool Agencies Limited to Co-operative
Taxation Commission - 1945.

"1. In the year 1924 the Co-operative Wheat Pooling Associations of Manitoba, Saskatchewan and Alberta,

incorporated a selling agency for the purpose of marketing the grain of their respective members through one organization. This selling agency was known as Canadian Co-operative Wheat Producers Limited and was incorporated in the month of August, 1924, under the provisions of the Dominion Companies Act. It had an authorized capital of fifteen hundred shares of a par of One Hundred (\$100) Dollars each. Each of the said provincial associations subscribed and paid for five hundred shares. The purpose of forming the Association, as set forth in its charter, was 'to be an agricultural organization instituted for the purpose of self-help and to improve methods and reduce costs of marketing grain', to serve as a central marketing association of the said cooperative associations. The agency was to operate on a non-profit basis and was to be the marketing agency of the said marketing associations, and of no others.

"2. The selling agency accepted delivery of grain forwarded to it by the said three cooperative marketing associations and sold it to the best advantage possible. It deducted its actual costs of operations and paid to its principals the entire proceeds realized from the sale of their members' grains. The Charter of the Company prohibited the payment of any dividend on its capital stock. This selling agency not only marketed the grain of the said three provincial associations during the years 1924 - 1930 inclusive, but it was the agency through which the Dominion Government undertook to stabilize the price of wheat in the years 1931 - 1934, both inclusive, that is until the Canadian Wheat Board was brought into being in 1935, when one of its first undertakings was to purchase from Canadian Co-operative Wheat Producers Limited its entire grain

marketing stabilization holdings. From that time on the Canadian Co-operative Wheat Producers Limited has simply existed as a coordinating agency for the three provincial cooperative grain marketing associations. It has been referred to in this brief and brought to the attention of this Commission for the sole purpose of more easily explaining the activities of Canadian Pool Agencies Ltd.

"3. Canadian Pool Agencies Ltd. was incorporated on the 30th day of June, A. D. 1928, as a private company under the provisions of The Dominion Companies Act. It was incorporated by Canadian Co-operative Wheat Producers Limited at the request of the three provincial cooperative marketing associations for the purpose of effecting any savings which might arise from handling brokerage connected with insuring their members' grain and elevator properties. It would collect the usual commission paid to insurance brokers and in turn any savings realized therefrom would be paid directly to the three associations in question by way of a reduction in the cost of insurance rather than by way of a dividend on invested capital. These associations in turn by their practice of distributing savings on the basis of volume of business done by their members would distribute the savings thus obtained to their members, and in that way would enhance the income of their members. Had not a separate legal entity been set up, the savings could not have been effected because no brokers' commission could otherwise have been secured.

"4. The authorized capital of the Company was twenty thousand (\$20,000) Dollars, divided into two thousand shares of Ten (\$10) Dollars each.

See: Canada Gazette, July 28, 1928
at page 284.

"The entire capital stock was subscribed by Canadian Co-operative Wheat Producers Ltd. and its nine directors who held one share each; each director held such share only so long as he remained a director. In the month of September, A. D. 1931 when the three provincial cooperative associations ceased to use Canadian Co-operative Wheat Producers as a marketing agency, but thereafter each operated their own individual agency, the shares held by Canadian Co-operative Wheat Producers Limited in the Company were transferred to the three provincial associations as follows: to Manitoba six hundred and sixty-three (663) shares, to Saskatchewan and Alberta six hundred and sixty-four (664) shares each.

"5. The by-laws of the Company contained the usual company provisions regarding paying dividends on stock. In the year 1933 was added an amendment authorizing payment of the savings in proportion to the volume of business transacted with the Company.

"6. The Company commenced business August 1, 1928, and has at all times since that date acted as broker in placing insurance of Canadian Co-operative Wheat Producers Limited, while it was in the grain marketing business, and in placing the insurance of the three provincial co-operative marketing associations and their subsidiary companies.

"7. From the commencement of operations until the year ending August 31, 1931 the entire savings of the Company were allocated and paid to Canadian Co-operative Wheat Producers Ltd. and to the three provincial cooperative marketing associations in proportion to the volume of business each had done with the Company for the previous year. Commencing with the year ending August 31, 1932 to the year ending August 31, 1940 a dividend of Six (6 per cent) per

cent was first paid to the respective associations holding stock in the Company, and the remainder of the savings distributed to them in proportion to the volume of business done with the Company by each association. After 1940 no further dividend had been paid on stock, the entire savings being distributed on the basis of patronage.

"8. The Company has always done a small percentage of non-member business for employees of the said provincial associations, for the Canadian Wheat Board and some others. It is now exceedingly difficult to secure accurate figures of the total volume of this non-member business done during the early years of operation, but commencing with the year 1932 the percentage of such non-member business has been as follows:

	<u>Percentage</u>		<u>Percentage</u>
1932	3.58	1939	3.96
1933	3.01	1940	11.15
1934	2.89	1941	4.58
1935	14.06	1942	3.51
1936	12.07	1943	1.83
1937	3.29	1944	2.01
1938	3.38		

"9. Tax returns have been filed by the Company in every year of its operations, the Company claiming exemption as a cooperative operating on a non-profit basis. No exception to this claim was ever made by the Department until, the month of September, A. D. 1944, when a notice of assessment was received, assessing the Company for its entire savings after deducting expenses of operation arising from the business transacted by it for the years 1940, 1941 and 1942. An appeal has been filed by the Company claiming exemption as a cooperative.

"10. We have already noted the Company was organized for the purpose of effecting savings in the handling of insurance connected with the marketing of grain of the members of the three provincial marketing associations. To the extent that the original purpose has been realized the incomes of the individual members of the said associations have been accordingly increased. This saving they do not consider should be treated as income in the hands of the brokerage agency merely because the associations were compelled to organize a separate legal entity in order to secure such savings. The associations believe that any action which may discourage the farmers of the prairie provinces from uniting for their mutual help is not in the public interest, They further believe that to treat the savings thus effected as taxable income could have no other result, and that any tax on such savings is therefore an unjust, unfair and inequitable tax."

.....

BY MR. PARKER:

Q. What position do you hold with this Company?

A. I am Manager.

Q. You have been associated with it ever since it was formed? A. No, the year after it was formed.

Q. When was it formed? A. 1928.

Q. And you have been with it since 1929? A. Yes.

Q. Did you prepare this brief? A. Together with Counsel.

Q. Will you file the by-laws of the Association?

A. Yes; we have them.

MR. MILLIKEN: Do you want the memorandum and by-laws of the original company or just those of the second one?

MR. PARKER: We would like to have the whole thing.

MR. MILLIKEN: I just wanted to be sure.

MR. PARKER: I think we should have all the documents.

MR. MILLIKEN: They are here, now, if you would like to have them. What are you referring to, Mr. Parker -- the charters and the memorandum?

MR. PARKER: Yes; but I think you had better file all that you have ready.

MR. MILLIKEN: I hesitate to object to what has now been done, Mr. Chairman, but I did not know that these financial statements were going in in this form. It is asking a great deal, I submit, to have the entire business transactions of this company made public. If what is required is not more than such statements as were given in Regina in relation to the dairy pools, I do not object; but I do not know whether that is what is wanted. I am wondering whether these statements should not be held in abeyance until we have had an opportunity of discussing the matter with the auditor and Counsel for the Commission.

THE CHAIRMAN: I understood Mr. Parker to ask for figures, covering succeeding years, similar to those given on page two of the brief for the period of five months ended December 31.

MR. MILLIKEN: But these statements, Mr. Chairman, go much more fully into the affairs of the Company.

THE CHAIRMAN: There may be further details; I do not know. But that particular information, I think, should be available to the Commission.

MR. MILLIKEN: I have no objection to the Commission having information but I hesitate to have the public at large given this information asked for. I do not think that any company is anxious to have its entire business transactions laid open to the public, and I am sure,

Mr. Chairman, that it is not your desire that we should do this. If there is further information desired by the Commission we will give all that they want; but we hesitate to make public all this information concerning our affairs.

THE CHAIRMAN: What do you suggest, Mr. Parker?

MR. PARKER: I think we should have exactly the same information as is set out in the brief for the first year.

MR. MILLIKEN: All that was given in the brief was surplus, and how it was divided. But this is much more.

MR. PARKER: I am not in a position to advise my learned friend as to what he should be prepared to put in. I would point out that the Commission will require all the information necessary to assist them in coming to a conclusion.

MR. MILLIKEN: I take the same position, Mr. Parker, so far as the Commission is concerned, but not with regard to making this information public. I had no idea that these statements, so prepared, were going in.

THE CHAIRMAN: This is the first time I have seen them, Mr. Milliken. I do not know more than you do about them.

MR. MILLIKEN: I appreciate that, Mr. Chairman; but you will realize that it puts the cooperatives in a very difficult position.

THE CHAIRMAN: Shall we proceed until formal objection is made?

MR. MILLIKEN: I make formal objection now.

THE CHAIRMAN: What is the nature of the objection?

MR. MILLIKEN: I object to anyone, other than the Commission, seeing these statements. If these are not sufficient for the Commission and they want more we will submit them, but I object to anyone else seeing these statements.

THE CHAIRMAN: After consulting with my colleagues, I think that possibly the best manner of dealing with the matter would be for the Commission Accountant, Mr. Ronald, to discuss it with the witness, and with yourself, too, Mr. Milliken if you like, to see exactly what these statements contain and how they should be filed. In the meantime, I assume that whoever is representing adverse interests will be cross-examining on the brief as filed. I do not feel, and I do not think my colleagues feel, that this mass of figures put before us can be fully understood without proper consideration. That is why I suggest that you discuss the matter with the Accountant.

MR. MILLIKEN: And at the moment proceed with the witness without these financial statements. Do you want the articles and the memorandum filed now, Mr. Parker? I take it you just want one for the Registrar.

MR. PARKER: Could you not file ten copies?

MR. HOWARD: Do I understand, Mr. Chairman, that any ruling in the matter will be of general application, or will it apply only to this particular instance?

THE CHAIRMAN: It would be general.

MR. HOWARD: At other times and in other places the Commission may find it a hardship during the course of examination not to have the documents. If questions are directed to witnesses in respect of these documents and you have not got the documents before you it will be difficult for you to follow the examination.

MR. MANN: It is Mr. Milliken's desire that the figures should not be made public, but I do not see how I can ask questions of the witness which would enlighten the Commission in the slightest degree without having some part of those figures before me. We would be moving in the dark. It

becomes an important issue whether this witness is to tell how the organizations carry on business, and without the figures I do not know that we shall get anywhere.

THE CHAIRMAN: I have known Counsel to move in the dark before, Mr. Mann. I do not yet know what these statements contain; they have just been handed to me.

MR. MANN: I notice what your Lordship said in answer to Mr. Howard, that this might result in a general rule. You can easily see that a general rule might create grave difficulties in the way of getting before the Commission information that is manifestly required. I am prepared to save the sensibilities of my friend Mr. Milliken, or of anyone else but I do not see why this information should be kept from the eyes and ears and observation of the Commission and ourselves.

MR. MILLIKEN: I do not suggest keeping anything from the eyes and ears of the Commission, but there is strenuous objection to giving all this information to the eyes and ears of people opposed to us. If that is the position we are to be put in, we shall have to reconsider seriously our whole position in relation to the briefs we have to submit. We are in a large business which is of great importance to western Canada and we do not feel that our affairs should be made public. I do not see why it is necessary, in order to enable the Commission to obtain information that the public should get it. There is nothing your Commission can ask for, Mr. Chairman, that we will not give.

THE CHAIRMAN: Counsel have cooperated before and I hope we can continue on the same basis.

MR. MANN: Mr. Milliken's views might be met if the Commission ordered a closed hearing without the press and

others who are not interested in the matter.

THE CHAIRMAN: I do not expect that would meet Mr. Milliken's wishes.

MR. MANN: I do not know what Mr. Milliken's wishes are.

MR. PARKER: I rather think, Mr. Chairman, there may be some misapprehension in the minds of some as to the manner in which this Commission should function. Before the hearings were commenced, through advertisement and in other ways, people were invited to give certain information voluntarily if they had anything which they wished to place before the Commission to assist it in examining into this question. This is the first stage of the inquiry and the Commission is now asked to examine material which is not voluntarily placed before it. So far the Commission has not ordered anyone who did not wish to do so to submit anything. After this chapter, so to speak, is completed there may come a time, if there has not been sufficient information placed before the Commission voluntarily, when I have no doubt the Commission will take steps to obtain, if necessary by compulsion, what has not been given. At this stage we are only hearing such things as are voluntarily placed before us. Heretofore Counsel have cooperated and, on a suggestion from the Commission, have even gone a little further than they originally volunteered to go. At the moment, Counsel in each case will have to take the responsibility of placing before the Commission what he thinks he ought to submit and if he cannot accept the suggestion of the Commission and go further we shall have to meet the situation when the time comes. I do not see how, at this stage, any Counsel can properly ask the Commission to order anybody to place any particular matter before them. That is the way it appeals to me.

MR. THORVALDSON: In this connection, Mr. Chairman, I would like to recall the fact that in Edmonton the ruling was made that any documents filed with the Commission became public documents and should be available to Counsel.

THE CHAIRMAN: That statement is a little broad. It was pointed out that briefs became public property when filed, but nothing was said about further documents that might be filed.

MR. THORVALDSON: I understood it applied to all documents.

THE CHAIRMAN: One complaint at that time was that you and others had not had an opportunity of seeing the briefs, but we were dealing only with briefs, so that you cannot deduce a general rule from that.

MR. THORVALDSON: I accept the correction, though I understood that it applied to financial statements as well as briefs. Of course, I would point out to the Commission the handicap that Counsel have been under, ever since the Commission started, by not having financial statements available.

THE CHAIRMAN: To remove any misapprehension in that regard, may I say that this Commission was set up to investigate cooperative methods in Canada and, in so far as may be necessary, to compare them with the business done by others. Does it necessarily follow that cooperatives must throw their entire books open to anyone who wishes to examine them on that point? On what basis would you do that? This is not a case of John Jones against John Smith in which John Smith is entitled to see everything that John Jones puts forward. It is not that at all. We are not trying anybody. We are not trying to get at the relative merits of one organization as compared with another. We are asked to report

to the Government on the cooperative situation in regard to taxation. In my humble opinion, that does not mean that we will throw open the investigation to anyone who wishes to inquire into the whole business of these organizations.

MR. THORVALDSON: The order of reference, Mr. Chairman, refers to the competitive system and it is most difficult to investigate the competitive system without financial statements.

THE CHAIRMAN: The Commission is entitled to the financial statements undoubtedly and it will get them; but I do not know that we will throw them open to everyone in the world. That is my personal feeling; I am not expressing the feeling of anyone else. It might be well at this stage to suspend the consideration of these two briefs in order to allow Counsel to confer with the Accountant.

MR. MILLIKEN: May I suggest this, Mr. Chairman. If it is understood that these statements are for the use of the Commission only -- the ones already marked as an Exhibit -- I am prepared to agree that the others be filed immediately and you can proceed with the hearing. If these statements are for the use of the Commission only we have no objection to filing them now.

THE CHAIRMAN: They are filed as a matter of fact.

MR. MILLIKEN: One is filed. I stopped the other just before it got filed. It was the Pool Agencies that was filed. I suggest that these statements can be filed as they are for the use of the Commission and if the auditor says they are not sufficient we will give the Commission any other information required.

THE CHAIRMAN: For the moment we had better suspend these two cases until the Accountant determines what the statements are.

MR. MILLIKEN: That would mean definitely that the witness would not be examined until after lunch?

THE CHAIRMAN: Yes.

MR. PARKER: We will now take up the brief submitted by Manitoba Co-operative Dairies Limited.

FRED GOODMAN,

Manager,
Manitoba Co-operative Dairies Limited,
having been duly sworn
testified as follows:

BY MR. SCARTH:

Q. You are Manager of Manitoba Co-operative Dairies Limited? A. Yes.

Q. How long have you been in that position?

A. Four years.

Q. You have prepared a brief? A. The directors assembled the information and it was all sanctioned before it was put in. It was sanctioned by the Board.

Q. You know the contents? A. Yes.

Q. And the facts contained in it you believe to be true to your own knowledge? A. Yes.

Q. Will you read the brief now. A. Yes.

It reads as follows:

"This brief is submitted on behalf of the Manitoba Co-operative Dairies Limited, incorporated under 'The Co-operative Associations Act', being Chapter 23, of the Statutes of Manitoba, 1916, as amended, and being Part VII of 'The Companies Act', Revised Statutes of Manitoba, 1940, Chapter 36.

"Foreword:

"The cooperative was incorporated with the object of enabling the dairymen; to gain control of the processing and marketing of their own products, and thereby redress grievances which existed at that time. In short, these objects were:

- "(a) To encourage the dairy industry in the province of Manitoba;
- "(b) To give the producer service at cost;
- "(c) To establish or acquire creameries and factories;
- "(d) To standardize the producers' butter and cheese for export.

"Origin of the Organization and Incorporation of Manitoba Co-operative Dairies Limited:

"The movement started originally in the vicinity of the city of Winnipeg in 1918, through dissatisfaction with the price being paid for butter fat in relation to the current price of butter.

"For the information of the Commission, we might say that 100 lbs. of butter fat (commonly known as churning cream), when made into butter, will produce 120 lbs. of butter. At this time the trade had fixed an arbitrary price of 23 cents per lb. for butter fat, while the price of butter on the Winnipeg market was 28 cents per lb. The dairymen felt that with butter at 28 cents, they were being paid an unusually low price for butter fat, and that the butter fat should have been selling at around 27 cents per lb.

"The dairymen also complained that the price of their whole milk being sold for local consumption in Winnipeg was arbitrarily fixed by the trade at a price allowing too much spread between the price paid and the price at which

it was sold to the consumer.

"Accordingly, the diarymen organized, and on August 12, 1920, incorporated the Manitoba Co-operative Dairies Limited under the Co-operative Associations Act above mentioned, with an authorized capital of \$500,000, divided into 20,000 shares of \$25 each. This capital stock was later subdivided into 500,000 shares of \$1 each. To date, capital has been allocated and paid up to the extent of \$121,800 among 11,000 members.

"A copy of the Memorandum of Association is attached to this brief and marked with the letter 'A'; and attached hereto and marked with the letter 'B' is a copy of the by-laws of the cooperative as amended to date.

"Operations:

"The cooperative commenced operations in the summer of 1921, by purchasing a butter-making plant located at 844 Sherbrooke Street in the city of Winnipeg, and is still operating that plant, processing butter fat and selling butter on the market. The cooperative is now operating four additional plants, namely: the Brandon plant, the Dauphin plant, the Glenella plant and the Erickson plant, which collectively have a turnover of approximately 2,000,000 lbs. of butter annually.

"The amount of butter processed by the cooperative is approximately 6 per cent of the total production of the province of Manitoba.

"A very small quantity of poultry and eggs is handled for the convenience of the members, but the percentage is so small that it enters into the operation of the cooperative only in a minor degree.

"Method of Operation and Distribution of Earnings:

"At the time of delivery of butter fat to the creameries, the butter fat is graded in accordance with the provincial government regulations, and each patron is credited on the books of the cooperative with the quantity and quality of butter fat delivered. At that time he is paid an initial payment, based on the market price of the butter fat delivered, in accordance with the grade. As between the cooperative and the member this transaction is treated as an initial payment, leaving the cooperative to account to the member for any surplus that may be derived from the marketing and sale of his product, on the basis of quantity and quality.

"By-law No. 45 of the cooperative makes provision for the distribution of surpluses, and reads as follows:

'Surplus arising from the yearly business of the Association, after making proper allowance for depreciation and payment of all expenses, and after setting aside necessary reserves, shall be allocated to members and patrons on a basis of the quantity and quality of the products delivered by each to the Association during the year.

'(a) The amount to be distributed to each patron shall be credited to his account, and so from year to year until the par value of one share of stock has been accumulated, whereupon the patron shall be a member and entitled to receive a fully paid up share certificate.

'(b) Any portion of the surplus may, instead of being immediately distributed in cash, be credited to the members entitled thereto and retained and used by the Association without interest, and thereafter distributed

and paid to the members at such times as the directors may be resolution decide.'

"During the years 1921 to 1931, inclusive, interest was paid on share capital subscribed at 7 per cent per annum, and a reserve was retained out of surplus in accordance with the provisions of the Manitoba Co-operative Associations Act, amounting to approximately \$30,200. The remainder of the surplus, amounting to \$100,000 was allocated to the members. Of this amount \$60,000 was distributed in cash, and the balance, \$40,000 was issued as paid-up stock.

"From 1931 to 1941 the cooperative operated at a loss. Since the year 1941, all surplus derived from the operations of the cooperative has been allocated and credited to members and non-member patrons on a basis of quantity and quality of butter fat delivered to the cooperatives during the past year. The amount allocated to non-member patrons is applied first in payment of one share of the par value of \$1, in accordance with the provisions of Part VII of the Companies Act, R.S.M. 1940, Chapter 36, thereby making him a member of the cooperative, and the remainder of his patronage dividend is treated in the same manner as patronage dividends allocated and credited to members.

"The surplus allocated and credited to members and non-member patrons as above set forth, is retained and used as working capital for the operations of the cooperative, all of which retentions have always been authorized by an unanimous vote of the members at the annual meetings of the cooperative.

"The plan has only been in operation since 1941, and the directors plan to place it on a five-year revolving scheme, whereby at the end of five years, first contributors

to working capital will be paid out in accordance with their priority and contribution.

"Voting Control:

"The persons entitled to vote at the annual meeting are 27 delegates. For the purpose of electing delegates, the province has been divided into three districts. The members in each district elect nine from among their members, and for that purpose each member has one vote, irrespective of the number of shares held by him.

"The cooperative is controlled by six directors, two of whom are elected by each district at its annual meeting. In this way each district is equally represented on the Board and has an equal number of delegates.

"In General:

"When the cooperative was first organized, the spread between butter fat and butter on the Winnipeg market was 5 cents a pound. Within four or five weeks, the price of butter fat and butter were equal, and since that time the spreads have remained very narrow and have never exceeded more than one or two cents a pound. At the present time the price of butter fat is 3 cents above the current market price of butter, exclusive of any subsidy being paid by the Dominion Government.

"In 1923, as a result of representations made by the cooperative to the provincial government, a system of grading was initiated by the Government, and placed under the control of the Dairy Commissioner, which remedied long standing complaints and very materially improved the quality of the cream and consequently the grade of butter. The cooperative has, since its organization, regularly circularized its members on the question of markets and on methods of improving the quality of their products.

This alone has accomplished a decided improvement in the quality of the butter fat delivered, and has resulted in a substantial increase in the returns to the producer. This service has not been confined by the cooperative to its own members, but has been extended to cover all known dairymen across the province.

"As a result of the movement, the cooperative has acquired five modern creameries serving the dairy interests across Manitoba: at Brandon, in the southwestern portion; Dauphin, in the northwestern portion; Glenella and Erickson, in the central western portion; and at Winnipeg, in the eastern section of the province.

"Though the percentage of butter fat handled by the cooperative is small in proportion to the total quantity produced in Manitoba, the competition with the trade afforded by the cooperative has been very beneficial to the dairy farmers throughout the whole province.

"We are submitting with this brief, copies of our financial statements for the year 1943, the last financial statements of the cooperative.

Manitoba Co-operative Dairies
Limited."

Documents filed with brief:

- "A" - Copy of Memorandum of Association
- "B" - Copy By-laws Manitoba Co-operative Dairies
Limited (amended to date)

Copies financial statements for the year 1943.

.....

BY MR. PARKER:

Q. Will you add financial statements including a couple of years while you were having losses? A. Yes.

Q. How many members has this Association approximately? A. 11,000.

Q. All share capital members? A. Yes; they are all shareholders.

Q. How many bought shares originally in cash and how many became members by having deductions made out of their butter fat cheques? A. There were 6,500 members in 1940 and since that time there have been about 5,000 added. Some of these have paid the dollar in cash and some had it deducted from their dividends.

Q. Is this another association of the type where everyone who ships butter fat must become a member, or does become a member? A. Yes. We allocate to every patron.

Q. And there is deducted from his earlier shipments sufficient to pay for his share? A. Not from his shipment.

Q. How many shares must each man have? A. One.

Q. What is the price of it? A. One dollar.

Q. Does he become a member at the end of the first year? A. Yes.

Q. Are there any participation certificates issued? A. There have not been on the new one dollar memberships. On the old share capital there were regular share certificates issued.

Q. I am talking about participation certificates to indicate each shipper's share in the surplus. A. Yes. He gets notification each year of what is due to him.

Q. Have you a copy of the certificate? A. This is a copy.

Q. It is in the form of a letter telling him the surplus earnings have been arrived at and have been apportioned and his share is so much? A. Yes.

Q. On page two of the brief you say that you began operations in Winnipeg? A. Yes.

Q. But you have since branched out and have four other branch plants, namely: Brandon, Dauphin, Glenella and Erickson? A. Yes.

Q. Under what circumstances did you take these over? Why did you not stay with the original unit? A. The Brandon and Dauphin plants were both put in prior to my time in the twenties. At that time patrons from those districts came to the organization requesting that they provide them with cooperative services in those towns.

Q. Were there existing plants in those centres? A. Yes.

Q. What became of them then? A. The existing plant was purchased in each case.

Q. The cooperative purchased the existing plant? A. Yes.

Q. And it was done at the request of those who were already shipping butter fat to the private plants? A. Not in all cases.

Q. How did it come about? Was it a case of the parent company going and buying them or did they come and ask to be bought? A. The patrons from the district requested our company to make arrangements so that they could market their cream cooperatively in that town.

Q. They were not patrons of yours until you established the plant? A. Some of them were shipping right through to Winnipeg.

Q. The amount to be distributed each year is decided by the Board of Directors in your case and not by the members? A. Yes, by the Board of Directors.

Q. From 1921 to 1931, you say, you paid interest on

share capital? A. Yes.

Q. When did you cease paying interest on share capital, and why? A. Through losses in the organization they were unable to pay interest.

Q. But since 1940 when you became prosperous --
A. We never commenced paying interest.

Q. If you stopped paying interest because you could not afford to, I should think you would start again when you could afford to do so. A. I believe it is the wish of the directors that they conform with the laws affecting cooperatives.

Q. Is there any law that says you cannot pay interest on share capital? A. I don't believe so.

Q. It was a matter which was in the hands of the directors? A. Yes.

Q. Do not the directors want to pay interest on share capital if the company can afford to pay it? I don't understand that. A. We have had a few requests for interest on shares.

Q. They all took it in the early days when they were prosperous? A. Yes.

Q. And when hard times came you did not?

BY MR. ARNASON:

Q. Was the question whether you should pay interest on share capital, or not pay interest, discussed at any of the annual meetings of your members? A. I don't believe it has been.

Q. It is purely a decision on the part of the directors? A. Yes.

BY MR. PARKER:

Q. Did you ever hear a discussion about income tax among the directors? A. Yes.

Q. Was the question of paying interest or not paying interest affected by the question of income tax?

A. I believe the directors were of the opinion that if they paid interest it was not allowed.

Q. And if they paid it in dividends it would not be taxable? A. In that case he gets the benefit.

Q. Was that taken into consideration, or was it one of the reasons they did not keep on paying interest on share capital? Whether their conclusions were right or wrong I do not know, but did that enter into their consideration?

A. I believe it did.

Q. During the years you had losses how did you take care of those losses? A. That was before my time.

Q. But have you any information to give us?

A. I believe they used the reserves of the company.

Q. That is, the former amounts which had been held back, allocated and credited to the patrons? A. No. They set up a reserve account amounting to \$30,000.

Q. And that was used up? A. Yes.

Q. Did that see them through or did they also have to use part of the amounts allocated as patronage dividends?

A. I believe in a sense it was part of the funds that were allocated which was used after the other was used up.

Q. Did they make bank borrowings? A. Yes.

Q. Even after the allocation was used up they still had to borrow? A. Yes.

Q. What security was given? A. The security under the section.

Q. Will you produce your financial statements?

A. Yes.

Q. I would like to have three or four periods in which you had losses. A. 1938, 1939, 1940 and 1941 were all

years of losses.

Q. If we go back to 1938 we shall get a sample of both losses and profits? A. Yes.

BY MR. NADEAU:

Q. I understand your by-laws were amended, but we have not the amendment here. A. You have the amended copies.

Q. I have your general by-laws and in the margin it states: "Amended June 1943". A. Most of these were amended in June 1943.

MR. PARKER: Perhaps the amendment consisted in striking out certain passages.

THE CHAIRMAN: Were these by-laws replaced by others?

THE WITNESS: No.

THE CHAIRMAN: Certain sections were just deleted?

MR. SCARTH: The by-laws are now as they appear in this amended form. These are the by-laws as amended to date but we can bring the old ones to show how the amendments were made.

BY MR. PARKER:

Q. I understand we have before us the whole thing here, before and after. Now, you have no Victory Bonds? A. No.

Q. Are you sailing too close to the wind? A. Yes.

BY MR. THORVALDSON:

Q. You refer to non-member patrons. Who are the non-member patrons? A. Anyone shipping to us who is not already a member would be a non-member patron.

Q. By virtue of what does he become a non-member patron? Do you just call him that, or does he ask to be so called?

A. He just makes shipment to us and he is not a member;

he is a non-member patron.

Q. How many of these have you? A. At the end of the year there aren't any.

Q. At the end of the year there aren't any? A. No.

Q. Why? A. Because they are all made members.

Q. Who makes them members? A. We do in some cases, and in some cases they apply for membership.

Q. What proportion of them apply for membership?

A. It is rather difficult to say offhand. When we go into a new district we ask them to become members even before they ship, and there is quite a number of them who sign applications even before they make shipments.

Q. You go into new districts and canvass for members?

A. Yes.

Q. Do they sign an application for membership?

A. Yes.

Q. That is the dollar membership? A. Yes.

Q. And in the case of others they ship to you and when do they become members? Suppose a person ships in January and continues shipping throughout the year; when does he become a member? A. It may be any time during that year. After he has shipped so much we circularize him and send him the application form for membership. In some cases they are returned and in others not.

Q. You send them the application form for membership and in some cases it is returned signed and in others it is not? A. Yes.

Q. The others that do not return the form decide that they do not wish to become members; do you make them members anyway? A. According to the statutes, I believe we can make them members in any case.

Q. How do you make them members? A. By resolution

of the Board of Directors.

Q. How often do you pass these resolutions?

A. Three or four times a year.

Q. A man might ship to you for several months and he is not a member until he is made one by resolution of the company? A. In some cases.

Q. And your by-laws provide for that? A. Yes.

Q. In connection with the stopping of payment of interest on share capital, was there any discussion of taxation at the time the question came up about stopping interest? A. I believe it was discussed.

Q. So the taxation problem did enter into it. Is that right? The taxation problem does play a part in the fact that you do not pay interest on share capital? A. Yes.

Q. When did you take over the plant that you refer to on page 2, the Brandon plant? A. 1927.

Q. And the Dauphin plant? A. 1929.

Q. And Glenella? A. Prior to Glenella and Erickson we disposed of two other plants and took over Glenella and Erickson in 1943.

Q. So that these two last-mentioned ones were taken over recently? A. Yes.

Q. Have you ever paid patronage dividends since the beginning of the war? A. No.

Q. Have you allocated any? A. All of them.

Q. All your earnings? A. Yes.

Q. All your profits have been allocated? A. Yes.

Q. You do not mind calling them profits?

A. That is merely a technical question. We consider them savings.

Q. How much have you allocated since the beginning of

the war, approximately? A. Allocation has only taken place for two years.

Q. 1943 and 1944? A. 1942 and 1943.

Q. You already had a resolution of the directors with respect to the revolving door method of paying patronage dividends? A. Nothing is definite in the books on that.

Q. All you have done is to allocate profits to patrons? A. Yes.

Q. What about non-member patrons? Do they receive allocation of profits? A. In the same proportion as anyone else.

Q. Is that pursuant to the resolutions of the company? A. Yes.

Q. Do you make a profit on your operations -- you operate dairy plants and creameries? A. Yes.

Q. Do you make a profit? A. We make a surplus on the initial price we pay.

Q. You have a surplus? A. Yes.

Q. And the initial price is approximately the market price; it is the market price? A. The same as other creameries.

Q. And therefore you have a surplus and you allocate patronage dividends. I suppose you do not object to my calling that surplus a net earning? A. You can call it anything you wish.

Q. Or profit. What do you call it? A. We call it a surplus on the original payment.

Q. You do not call it a saving? A. It is a saving to patrons.

Q. And a profit also? A. No; I would not say so.

Q. I suppose you try to operate so that you have a

surplus? A. Well, at times we know we are operating when there will not be a surplus.

Q. There is really no difference between your method of operation and that of any other company in a similar line of business? A. Yes.

Q. In your butter making? You have machinery?
A. Yes; and the machinery is all made by some firm.

Q. And your methods of business are much like those of other companies? A. Yes, that is so far as the actual operation, the manufacturing is concerned.

Q. You do not pay income tax? A. Not at the present time.

Q. Have you filed returns? A. Yes.

Q. Have you been assessed for income tax? A. There is something in the ancient history of this concern --

Q. But since the beginning of the war, have you been assessed? A. No.

Q. I suppose you try to sell butter at as good a price as possible and try to have a surplus? A. Yes.

Q. You are concerned, then, with making profits or earnings or savings. You try to make a saving or profit or earning? A. If we break even we are still on the right side of the fence.

Q. But you want to do better than that? A. Yes, I suppose so; human nature is the same everywhere.

Q. I suppose you believe in profits and the profit motive? A. To a limited extent.

Q. And you believe you can do better for your producers than other creameries? A. No. We don't particularly say we can do better for them.

Q. Don't you tell your patrons and members that you can do better for them than other creameries can? A. In the way

of marketing products?

Q. In the way of price, giving them a price advantage over others. A. I don't think we have ever held out that.

Q. Isn't that the very basis on which you try to get members, that you can do better for them than others can? A. No. I have never advocated that since I have been there.

Q. How do you get members unless you suggest that you can do better for them than others can? A. We can do it in other ways, including the welfare of the producer.

Q. So that you are not interested in making patronage dividends for them? A. No; they cannot accept it.

Q. You are not concerned with whether you are able to pay a patronage dividend or allocate a patronage dividend to your members? A. No. I would say that we are satisfied if we break even.

Q. Even if you do not pay a better price than anyone else? A. Yes.

Q. Are your members satisfied with that?

A. With the odd exception who doesn't understand the operations of the organization. The majority of them, however, are quite satisfied.

Q. Do you not think you operate, or do you not try to operate, on the same basis as other dairy pools, that is to say, try to do as well as possible for your farmer members?

A. Yes.

Q. I want to read a sentence from a letter signed by the Alberta Dairy Pool and ask if you agree. It is dated November 1, 1944, sent out by the Alberta Dairy Pool to its members: "Dairy pool shippers receive an advance payment on their cream which closely approximates the price paid by

private creameries, and at the end of the year final payment is made distributing all earnings." They refer to earnings. Do you differ with the Alberta Dairy Pool with respect to what they call earnings? Is not that exactly what you try to do? You try to make as good an earning as possible for your farmer members? A. Certainly.

Q. And there is no doubt the Alberta Dairy Pool meant what they said when they referred to earnings. Do you agree with this sentence: "When you ship your cream to Northern Alberta Dairy Pool you share in the facilities. You also profit from your cream shipments and all earnings over operating costs are returned to the producer." Isn't that what you try to do? A. We try to give the producer the largest return on his product which we possibly can.

Q. So that you know, really, that your producer believes in the profit motive whether you do or not?

A. Yes. He is interested in getting as much as he can for his product.

Q. It is his desire to get as much as he can for his product? A. Yes.

Q. You do not complain against the use of the word "earnings" by the Northern Alberta Dairy Pool?

A. That is a matter for them to decide.

BY MR. SCARTH:

Q. You said there were many other services which the association gives its members besides the actual return of surplus? A. Yes.

Q. Would you enlarge on that a little and tell what services you give? A. In the first place we are members of the Dairy Farmers of Canada, which is a federation of producers across the Dominion who spend a considerable amount of money and time in furthering the future welfare of the

dairy farmers throughout the Dominion and in making various recommendations to the Government bodies for improving the dairy industry in general. All that is financed through the various organizations and at the same time we communicate to patrons, at various times, ways and means of improving the quality of cream and the handling of cream, and any information that is given by the Dominion Government with reference to improved marketing methods is passed on to them, because otherwise they might get it or might not. We make certain at any rate, that the major part of the information is passed on to the producer.

Q. It is in the nature of an educational campaign?

A. Yes.

Q. Which contributes to the welfare of the dairyman?

A. Yes.

BY MR. VAUGHAN:

Q. As regards the four dairies taken over, does any part of your earnings or surplus come from these?

A. I beg your pardon?

Q. Referring to the dairies you took over, two in 1943 and two previous to 1943, does a substantial part of your earnings come from them or is it largely from Winnipeg?

A. Over a period of years, apart from the last two the creameries taken over -- well, I would say they were about equal.

Q. You would not say that the taking over of these creameries has turned a loss into a profit? A. Which creameries?

Q. Take the Glenella and the Erickson, taken over in 1943. A. I believe that both those were operating at a loss when we took them over.

Q. Were they? A. Yes.

Q. You are quite satisfied of that? A. Yes.

BY MR. ARNASON:

Q. You say in your brief that Co-operative Dairies Limited is now following the policy of making an initial payment to members equal to the market price, and on page five of the brief you point out that the spread between butter fat and butter was narrowed very greatly in four or five weeks? A. Yes.

Q. Does that mean that you have not always followed the policy of giving an initial advance equal to the market price? A. We followed the market prices at that time.

Q. Even at that early time? A. Yes.

Q. What then is the point in this sentence that appears on page five: "Within four or five weeks, the price of butter fat and butter were equal"?

A. That is merely to show that the spread of price between butter fat and butter was closed up very quickly after the organization commenced operations.

Q. You attribute that, in part at least, to the organization of your Association? A. All I have to substantiate that is the Secretary's report at the annual meeting given after that.

Q. His report suggested that this was a cause of cause and effect? A. Yes.

The Commission adjourned until 2.30 p. m.

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The Commission resumed at 2.30 p. m.

MR. PARKER: Mr. Chairman, I would suggest that the Pool Agencies and Canadian Pool, the two briefs dealt with partly this morning, stand over until tomorrow morning, the reason being that, as I understand, the representatives of the pools and ourselves can agree on the amount of information which we desire to have filed at the present time, and I think it would save time if we had an opportunity to go over that a little more fully after this afternoon's session.

THE CHAIRMAN: I should hope that agreement would be reached on that subject.

MR. MILLIKEN: It is difficult to hear Mr. Parker. Do you wish the Pool Agencies to stand over, Mr. Parker?

MR. PARKER: Until tomorrow morning, so that the representatives of the Pool and ourselves can come to an agreement on what information can be put in.

MR. MILLIKEN: I thought we had agreed on that. My client is here. We did not know that we were to get the material prepared now.

MR. PARKER: In the meantime we can go on with something else. I think it would be appropriate to go on with the independent creameries. I am advised that the gentleman who wishes to speak to this brief intimated that he might be delayed in the early part of the afternoon. Perhaps we can pass that and go on to the next.

THE CHAIRMAN: Very good.

MR. PARKER: The next brief will be No. 40.

MR. THORVALDSON: Someone else from my office is looking after that and if it is convenient it might stand over for a little while.

MR. SCARTH: I spoke to Mr. Parker yesterday about two farmers who would like to present briefs this afternoon and they are anxious to get on. They are local pool elevators. We are filing the main brief which will cover all the material.

THE CHAIRMAN: Are they on the list?

MR. SCARTH: They filed their briefs but they are at the foot of the list in consequence of having filed late. With your indulgence, however, we could take them now.

THE CHAIRMAN: With the consent of Counsel representing other interests, I have no objection, and I am sure the Commission has none.

MR. PARKER: Unless there is someone else present who has the right of way, having filed earlier.

THE CHAIRMAN: No one has indicated any intention of going ahead at the moment.

O. PELOQUIN,

Secretary,
Carey Co-operative Elevator
Association,
having been duly sworn
testified as follows:

BY MR. SCARTH:

Q. You are Secretary of Carey Co-operative Elevator Association. A. Yes.

Q. How long have you lived in the district?

A. I was born there in 1892.

Q. You have lived there all your life? A. Yes.

Q. How long have you been a member of the Association?

A. Since its formation in 1920.

Q. You have a brief which you are presenting?

A. Yes.

Q. Has it had the approval of the Board? A. Oh yes.

Q. The local Board? A. Yes. We had two meetings about the brief and it was approved and recommended by resolution.

Q. You have seen its contents? A. Yes.

Q. And you say they are correct? A. Yes.

Q. Will you read the brief. A. It is as follows:

"Submission of Carey Co-operative Elevator Association to
Royal Commission on Co-operatives - 1945.

"Settlers first came to the Carey District in the early 1870's, coming on the heels of promises of riches in the west. These families came from Quebec, and the parish was established in 1877, when there were thirty-five families in the district. The promised riches did not appear, and as their old friends and neighbours in Quebec heard that their western cousins did not even have the fare to return home, settlement from then on was much slower.

"The English settlers came in later, moving on to the land to the west of St. Pierre near the river, either buying out the French or moving on to homesteads in that territory. There was at that time no understanding between the two racial groups, no contacts, no cooperation or community interest.

"The railway came through this district in 1878, when a weekly train ran from the border to Winnipeg. The railway did not come through the town -- which was built around the church, but ran closer to the river on a straight line to Winnipeg.

"In the early years there was very little grain grown in this district, but as more and more land was broken a flat warehouse was built on the railway line, where the grain was handled in bags and shipped forward in small cars. The

first elevator built at Carey, which is the shipping point for St. Pierre and district, was one of the old slow-moving type of elevators, where wagons would line up all day and far into the night awaiting their turn to be unloaded. Growers were very dissatisfied with grades, weights and settlements, and as still more land was being broken, with the resulting increase in the amount of grain for sale, the farmers of the district got busy in 1914 and organized a joint stock company and built a 30,000-bushel elevator. A large number of the farmers of the district bought shares in this new company, which was known as 'Carey Elevator Company Limited.' This elevator was operated by the farmers for nine years. The venture proved to be very successful, and during the war years and the period grain was handled by the old Wheat Board the elevator paid for itself in dividends distributed to the shareholders. In one year during that period the dividends earned amount to 52 per cent on the investment. However, with declining prices following the war, and due to the fact that we did not have full hedging facilities, difficulties began to arise and the elevator fell on hard times. The fact that we had to dispose of our grain through a private company or commission merchant gave the directors of the Carey Elevator Company a lot of worries and trouble, and they were not fully cognizant of this phase of the grain-handling business.

"In 1919 the company had gone into the lumber business at St. Pierre, and in 1923 bought the competing lumber company in the town. With the difficulties arising out of the operating of our own elevator company, the directors of the elevator company decided to sell their elevator facilities, feeling at the same time that in selling to another line company the competition between these two

companies at the point would be of some benefit to grain growers. The elevator was therefore sold, and they turned their efforts to the lumber business. The name of the Company was changed to the St. Pierre Lumber Co. Ltd., and this Company is still operating successfully today.

"The set-up of having two line elevators handling our grain carried on for five years, and we realized as the years went by that we had made a grave mistake in disposing of our elevator. Just prior to 1928, in the early years of the Wheat Pool, a number of farmers in the district saw the possibilities of operating an elevator as a co-operative. These leaders were able to get support from enough farmers in the district to form an elevator association, and in 1928 at a general meeting of the farmers of the locality it was decided to join the pool organization, as we felt that by joining together with other farmer organizations throughout Manitoba we would not have the difficulties the old elevator company had run into with reference to the sale of their grain.

"This new organization bought the elevator that had originally belonged to and been built by the farmers of the district, and as soon as time and money permitted the elevator was modernized. First a new Diesel engine was installed, an air pump and a 12-ton scale were put in, and bins were split in order to avoid the mixing of grain. These changes made for faster handling and eliminated much of the discontent. A cylinder grain cleaner was also put in, and now today we even have a fine bungalow for our agent to live in.

"Since operations commenced, the Carey Co-operative Elevator Association has handled 1,578,233 bushels, and has returned in patronage dividends to its members the

sum of \$10,626.95. Our elevator has cleaned 220,439 bushels, and 405,030 pounds of screenings have been returned to members. These screenings have been valuable feed for livestock, and an estimated saving on freight of \$600,000 has been made.

"This very briefly is the story of grain handling at Carey for the past forty years. Now we would like to compare our position today with some thirty or forty years ago. We were just as good farmers then as we are today; we went to great pains in making coal-black summerfallow; we selected the best seed available at the time, and at harvest and threshing we were very careful to get every kernel out and ready for market. There our efforts stopped. We turned the proceeds of a year of hard labour into the hands of private interests, where we had no control whatsoever over them. We simply had to take what we could get, and be ready to take more of the same medicine the following fall. This sort of thing created an atmosphere of dissatisfaction. People were not satisfied with the price they received for their grain; grades and dockages were always questioned; a feeling of unrest was prevailing in the community. Today we have what we believe to be the very best system for marketing our grain that has ever existed -- that is, naturally, from the farmer's standpoint. Today there is less and less of the old feeling of dissatisfaction, and the confidence of the farmers in our cooperative has grown until our active membership is 99 and we have handled approximately 70 per cent of the grain receipts at the point. During the last four years, when we have been marketing under the Canadian Wheat Board, with quota regulations, a good deal of the grain belonging to our members has been delivered to the line elevator company, only due to the fact that our own

elevator has been filled and we were not allowed to ship grain out while there was empty space in the other elevator at the point.

"We know much more now than we ever did about the marketing of grain. May we be permitted to go into details regarding the organization and operation of Manitoba Pool Elevators. First of all, when a local association is formed a Board of Directors is elected to take care of all local matters and to keep in contact with head office. From this Board of Directors a President, Vice-President and a Secretary are elected. A delegate is also appointed to attend at the annual convention of Manitoba Pool Elevators, where he meets with delegates from all the other local associations in the province. As a rule our local Board of Directors holds a meeting every month, or as often as is deemed advisable. On all matters relative to the operation and general upkeep of the elevator and machinery the local Board must recommend to head office, by resolution, what changes or repairs they want done. The local Board is always consulted on all local matters. At the annual meeting of Manitoba Pool Elevators, delegates from each of these locals are present, and an audited financial report is presented to the delegates. Every bit of information is cheerfully given out. The province is divided into seven districts, and the delegates from each of these districts elect their director to the Central Board. The provincial directors are elected for a one-year term, and it is our right to change them as we decide. Following this annual meeting, the annual meeting of our Association is held. Our directors from the Central Board and the Travelling Superintendent are always present. The local delegate makes a report of what was carried on at the general convention, and an audited financial

statement of the local is presented by the superintendent or the director. All the revenues and all expenses are carefully itemized, showing the financial standing of the Association for the year. At this time full information is given relating to the number of bushels of grain handled, what the overage or shortage was, as well as the grade statement. In supplying this information, confidence in the organization has been created. This, briefly, is the set-up of Manitoba Pool Elevators.

"We think, as we have stated before, that we have a great organization, owned, controlled and operated by the farmers themselves. We are further convinced that the local cooperative elevators, along with the pool terminals, form a part of our farm equipment and are as essential to our success as a tractor, combine or a grain drill on the farm. We can now say, truthfully and with pride, that we as farmers are looking after our own business in a businesslike way. The fact should never be forgotten that we are not butting into anybody else's business. We grow the grain, and as such have the right to market this grain to the best possible advantage.

"Manitoba Pool Elevators has been through a series of very successful years. One hundred and eighty local associations now form this organization. Each local association has a board of seven directors, making a total of close to 1,300 farmers directly and constantly in contact with head office regarding the marketing of grain, including decisions made by the Wheat Board, premiums on various kinds of grain, etc. These 1,300 farmers in turn pass this information over to as many members of their associations as it is possible, so that you have a community that is fast becoming educated and interested in the marketing of their crops. Manitoba Pool

Elevators is now in a very sound financial position, but this does not mean that we did not have to face some serious reverses. In the early thirties the whole structure was threatened with complete destruction. Here we wish to pay tribute to our provincial government for their far-sightedness in giving financial assistance to this organization. This assistance rendered by the government has also helped greatly in building up the morale and confidence of the farmers of this province, so that what was nearly a death blow to this organization turned out to be a stimulant to the grain growers of this country.

"We have also been very fortunate in getting a very high quality of man to look after the business end of this organization. All the directors of Manitoba Pool Elevators are farmers, or at one time or another were actually on the farm. The grain men have started their careers as grain buyers in country elevators. All of these are true cooperators at heart, and are men who spared no time or energy, men who ruined their health in trying to educate and unite the farmers of this province and to teach them that cooperation was the only way in which they could survive and improve their standard of living.

"In closing, may we summarize the position of the Carey Cooperative Elevator Association. The cooperative movement has created a feeling of better understanding between the racial elements of the district, and we are now working harmoniously on a common ground. Before this we were working one against the other. It is a unifying movement. There is a growing conviction in the district that we can do more for each other through the cooperative way of life. The success of the elevator has led into other lines of cooperative endeavour. Four cooperative cheese factories are

now located in the district, at -

St. Malo
Jolys
St. Pierre
Ritchot

There are also a number of credit unions successfully operating in the district. Just last year, further encouraged by the success of the other cooperatives, and through the experience gained by our people in the elevator association, a cooperative store was started at St. Pierre, which is one of the finest rural stores in Manitoba. These activities are still expanding, and we look forward to a bright future.

"We as farmers are ready and willing to pay our share of income taxes through the personal income tax assessment. All revenues from the production and marketing of our produce, including dividends received from processing and marketing cooperatives, have been included in our personal income tax returns, which naturally tend to increase our personal payments to the Government.

Respectfully submitted,

Carey Co-operative Elevator Association."

BY MR. PARKER:

Q. On the last page you say the cooperative store was started at St. Pierre. How was it started? Did you buy an independent store? A. No; the owner wanted to retire.

Q. Why did he want to retire? A. Because he felt he could live easier.

Q. He left the community? A. He did not leave the community. He still stays in St. Pierre.

Q. Is he employed in connection with the store? A. No, in no way.

Q. Nor with the elevator? A. No.

Q. And your Association is a member of Manitoba Pool Elevators? A. Yes.

Q. How did you become a member? A. When a man comes to the elevator, if he is not a member the agent asks him if he wants to become a member and if so he signs the application form, which is sent to head office, and head office in turn sends a share certificate to the local Board, to the Secretary, and it passes at the regular meeting of the local Board to be signed by the President and Secretary, to be approved or rejected as we see fit. Then we have to pass two resolutions approving the application of such and such a man to become a member and authorizing head office to affix the corporate seal of the corporation thereto, and this certificate is returned.

Q. But your local Association is a member of the Manitoba Pool Elevators? The members are local associations: A. Yes.

Q. How does your Association become a member of the Manitoba Pool? A. How did it become a member?

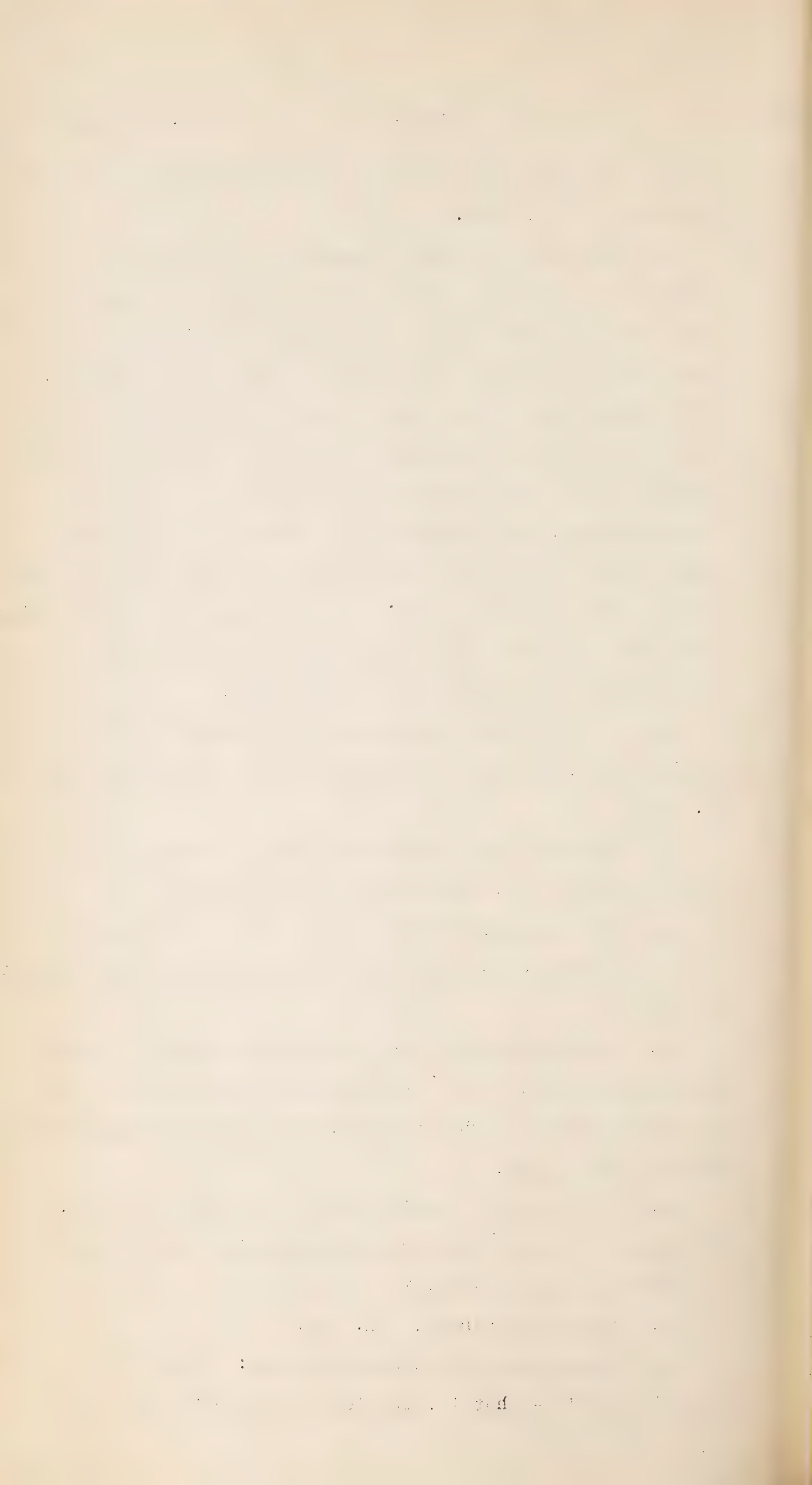
Q. If I understood you correctly, you told us how the individual shipper becomes a member of the local Association? A. Yes.

Q. And how does the local Association become a member of Manitoba Pool? A. The Manitoba is organized by all the associations in the province. Each and every organization forms a part of it.

Q. Do you pay the Manitoba Pool any fees? A. No. You mean to become a member of the Association or a member of Manitoba Pool Elevators?

Q. The Manitoba Pool. A. No.

Q. On page two of the brief you say: "This new organization" -- that is, the local body -- "bought the



elevator that had originally belonged to and been built by the farmers of the district, and as soon as time and money permitted the elevator was modernized." How was that financed, the modernizing of the elevator? A. When it was bought from the line company?

Q. No, not as I understand it. This new organization, the Carey Pool, bought an elevator under the old limited company. How did you finance the purchase of that old outfit and how did you modernize it? A. We acquired the elevator through Manitoba Pool Elevators.

Q. In what way? A. They bought it for us to a certain extent. They financed the purchase and we were responsible for it.

Q. Manitoba Pool furnished the money to buy it?

A. Yes.

Q. And your local Association in due course paid off the pool? A. Yes.

Q. How did you raise the money to pay off the pool?

A. By dividends and by revenues that accrued through the handling of grain.

Q. By the deduction of so much a bushel? A. Not directly; by profits made through the handling of grain.

Q. Profits made through the local Association?

A. Sure.

Q. How did they make profits? What kind of business were they engaged in that gave them those profits? A. The handling of grain alone creates a profit, you know, and terminal revenues also create profit, and of course the processing of grain, mixing various grades, cleaning and the location of it tend to create profit. In that way it creates a profit, and deductions were made also.

Q. So much per bushel on the grain brought in?

A. Yes.

Q. From the deductions and profits made over a term of years you were able to repay the pool, and from the same source you got money for necessary repairs when the establishment was modernized? A. Yes.

Q. You spoke of the head office. Where is the head office of the local association -- in Carey? A. Yes.

Q. Are books kept at that office? A. The Winnipeg office.

Q. Whose office? A. Manitoba Pool Elevators.

Q. Does not the local Association keep books?

A. We keep track of the profits made and the rest is done at the business end.

Q. Do you handle cash? A. No.

Q. You do not issue cheques or keep a bank account?

A. No.

Q. All done at the head office? A. Yes.

Q. Do they charge the local Association a fee for that service? A. So much a bushel.

Q. And that goes into the treasury of the pool?

A. Yes.

Q. Do you get any moneys back from the pool at the end of the year? A. As a rule we do, yes.

Q. On what basis do you receive moneys back?

A. On a patronage dividend basis.

Q. What does that mean? Your local Association gets a dividend in proportion to the amount your Association has put in in relation to other members of the Pool?

A. In relation to the number of bushels each member has put in.

Q. Your pool would get a certain amount of money and

you in turn distribute to your members? A. No; it is all done here.

Q. All distributed to the individuals from head office?

A. Yes. We are told very often to look into different changes of address.

Q. In the lower part of page four you say: "In the early 30's the whole structure was threatened with complete destruction. Here we wish to pay tribute to our provincial government for their farsightedness in giving financial assistance to this organization. This assistance rendered by the government has also helped greatly in building up the morale and confidence of the farmers of this province, so that what was nearly a death blow to this organization turned out to be a stimulant to the grain growers of this country." So that if it had not been for assistance from the provincial government the whole structure would have toppled?

A. It might have.

Q. It was pretty certain? A. I know that the government help came in very handy.

Q. I guess it always does. I suppose your Association appealed for it; it was not wished on you? A. No.

Q. Was it in the nature of a loan? A. I have a vague recollection of that. We were called upon to pass on different agreements but it was in the form of a guarantee rather, I guess.

Q. You appealed to the pool for assistance first, your local Association? A. I don't remember that we did.

Q. Did you appeal directly to the government or was it the pool that appealed to the government on behalf of the local Association? A. The pool did on behalf of the local Association.

Q. You are not sure? A. I am fairly sure, as far as

I can remember.

Q. At any rate, you got assistance either directly or through the pool and it was in the shape of guaranteeing a loan from the bank, or was it a direct advance by the government? A. I could not say.

Q. Who can tell us? A. I guess you can get it from the Manitoba.

Q. Was it paid off? A. Most of it, I guess, practically all of it.

Q. Was it all paid off? A. Practically all.

Q. Is there still some outstanding? A. I can't say.

Q. We can get that from the pool? A. Yes, and all the trimmings.

Q. Were the members of your local called upon, by way of deductions from the sale of their wheat, to provide money to pay back this loan? A. Deductions were made. Five or ten per cent of our revenues were allocated to that purpose, and if I remember also, 5 or 10 per cent was allocated to working capital -- that is, if I remember rightly. I may be wrong, but I think that is the set-up.

Q. Who is the director from your Association?

A. Mr. D. J. Parker.

Q. He should be a good man. A. He is.

Q. He is an appointee from your local. A. Yes. He is elected by the district he represents. The province is divided into seven districts.

Q. And he is the one from that district, from the district in which Carey is situated? A. Yes.

Q. You are not a director of the local? A. Yes.

Q. President of it? A. Secretary.

Q. You are not on the directorate of the pool?

A. I am on the local Board but not on the central Board.

Q. Are you a delegate? A. Sometimes I am and sometimes somebody else is.

Q. As Secretary of your local Association, and sometimes as delegate to the annual meeting, have you not acquired the details of how that loan was paid back?

A. Maybe I should have, but we farmers have so much of other things in our heads that we cannot be experts.

Q. That is the explanation. Your business is run by people who know a lot more about it than the individual farmers? A. We select a good lot of men to run that end of it while we look after the local end, and we are satisfied.

Q. In the early days when you organized that joint stock company you found it was very beneficial to the farmers?

A. Yes.

Q. It pulled you out of a bad hole and improved the condition of the farmers? A. When we built the first elevator?

Q. Yes. A. Yes. Well, we ran across a series of very successful years. We built in 1914.

Q. When times were good the ordinary company served your purposes well, and when times were bad, like everyone else you had troubles? A. Yes.

Q. And perhaps right now times are pretty good? A. Oh yes.

Q. And an ordinary company will serve as well as a co-operative. Do you agree with that? A. It might give us the service but not the revenues.

Q. If you had to pay taxes the same as ordinary companies you would be in the same position? A. We are working for ourselves. It is a business proposition.

Q. But the difference between your financial position now

and the financial position of those selling wheat through the ordinary company is due to the fact that you do not pay taxes? A. We do pay taxes.

Q. The company and not the individual? A. The corporation does not pay taxes.

Q. But I am suggesting that the very fact that the corporation does not pay income tax is the reason the individuals are in a better position. Do you agree with that? A. No.

Q. What is wrong with it? A. We agree to pay taxes, but we want the proceeds from our crops, from all grain we grow, and as long as we don't have those proceeds no one is entitled to pay taxes, because the head office is just the trustee for us. But when the crop is all cleaned up if there is a dividend to be paid we are glad to add that to our statement of income for the year and we gladly pay taxes on that, which I did this year again.

Q. Does the pool send out to each individual grain grower a statement of the amount of money they are holding to his credit from time to time? A. Yes, the annual statement is distributed at the annual meeting of our local. I don't know what the others do, but it must be along the same line.

Q. You do not make up the annual statement of your local? A. No. It is made up at head office. The head office makes a separate statement.

MR. HOWARD: As we have heard, the Manitoba Pool Elevators has as its members 180 associations, of which the speaker is a representative of one. We are assured by Mr. Scarth that when the Manitoba Pool Elevators' brief is submitted it will contain full and explicit information with regard to their set-up and the composition of the local

associations in the organization, and all matters of that type. On the strength of that assurance we do not propose to engage in any examination of the representations of these individual local associations. That does not seem to be logical; they are only four out of 180 anyway. It seems to us that your Commission would hardly wish to explore the whole 180 in detail. We will get the typical state of affairs from the Manitoba.

THE CHAIRMAN: Is this produced as a typical case?

MR. SCARTH: It was produced locally by these gentlemen themselves but I can give the assurance that a full and complete brief covering the picture will be filed.

THE CHAIRMAN: Your brief will embrace similar ones?

MR. SCARTH: Yes. It covers them, and I am sure it will give the details my learned friend wants.

MR. HOWARD: I simply do not wish you, Mr. Chairman, to infer, from the fact that we do not examine the witness, any acquiescence on our part in respect of this.

BY MR. THORVALDSON:

Q. I wish to refer to the first page of your brief, where you speak of the old Carey Elevator Company. That was a company incorporated under ordinary incorporation?

A. A joint stock company.

Q. You speak of investment in that company. I suppose you owned the elevator. The value was what -- fifteen or sixteen thousand? A. I could not give the figures but I know we bought it from the line company for \$7,500.

Q. You speak of having made a profit of 52 per cent on the investment in one year. I was wondering how much your investment was; do you remember? A. No, I could not say.

Q. Ten or twenty or thirty thousand? A. It could not

have been a lot more than the figure we bought it for, around eight thousand I would say.

Q. So that in that one year you must have made a little over \$4,000? A. Yes.

Q. On page two you say: "Since operations commenced, the Carey Co-operative Elevator Association" -- that is, the early elevator, is it not? A. Yes.

Q. ".....has handled 1,578,233 bushels, and has returned in patronage dividends to its members the sum of \$10,626.95." That is for a period of sixteen years? A. Yes.

Q. So that in sixteen years your cooperative has paid patronage dividends of only \$10,626 and when you operated as a joint stock company you made a profit in one year of over \$4,000.

MR. SCARTH: And in the meantime you made a big hole in the payment of the purchase price of the elevator?

THE WITNESS: Oh yes.

MR. SCARTH: You said it was nearly all paid off.

THE WITNESS: Yes.

J. T. FINKBEINER,

President,
Decker Co-operative Elevator
Association,
having been duly sworn
testified as follows:

BY MR. SCARTH:

Q. Where do you reside? A. On a farm two miles west of Decker.

Q. How long have you lived there? A. Thirty-nine years.

Q. You are one of the old settlers? A. One of the first ones.

Q. What has been your connection with the Decker Co-operative Association? A. Director ever since the start and President for the last seventeen years.

Q. And you are familiar with the facts set out in the brief? A. Yes.

Q. Will you read it? A. It is as follows:
"Submission of Decker Co-operative Elevator Association -
to The Royal Commission on Co-operatives - 1945.

"The Decker Co-operative Elevator Association is made up of farmers. These men are of Anglo-Saxon origin for the most part; they or their parents coming into the district from Ontario. The first homesteaders arrived in the 1880's. Decker is the centre of a farming community and is situated some two hundred miles northwest of Winnipeg. The land is of the best and will compare favourably with any in the province of Manitoba.

"Through the years, from the early days to now, the farmers of the district have had many difficulties to face. Many living in the community have recognized for a long time that the price received for the produce we had to sell was one of the causes of the difficulties, and shouldered the responsibility to see whether we could improve this condition for the benefit of the people. It was early recognized that the solution could be found in the united efforts of the farmers, and organization efforts commenced. In the Decker district a large percentage of farmers joined the Wheat Pool in the years 1925 to 1929 and educational work leading to cooperative activity was carried on.

"Operating in the district on a cooperative basis, are the following organizations:

Livestock Shipping Association

Poultry Marketing Local

Co-operative Elevator Association

"Organizations operating for the benefit of the community are:

Crop Improvement Club

A unit of the Manitoba Hospital Service Association

"In 1930, we organized our Livestock Shipping Association. A shipper was appointed and a committee was set up to work with the shipper. Our stock was shipped in car lots to a commission firm in Winnipeg. The venture proved so successful that there has not been a drover in the district since. Through this experiment the farmers have gained financially and educationally, for we found out what our own stock was sold at and what the freight and expenses amounted to, and we also found out what the consumer was looking for.

"The satisfaction derived from this venture of working together for the common good naturally led to further consideration of other activities which led to practices of self-help, particularly in the field of marketing produce, which called for new methods and drastic overhauling.

"Poultry marketing received the attention of the farmers because the method that existed had not proven satisfactory. Under the old way of selling poultry to the local merchant, little, if any, attention had been given to quality of product, preparation for market, standardization and appearance. Country meetings were held throughout the province and action decided upon. Country locals were set up, the province was divided into districts, and a provincial board was elected, which in turn set up a Marketing Association. A local was formed at Decker which gathered the poultry and packed it. The members receive an initial

payment on the day of shipment and a final payment when the poultry is sold. This method has proved very satisfactory to the members, both financially and educationally, and has helped the producers to see what united effort can do when they all work for the common good for both producer and the consumer.

"Now we come to the third venture that the producers have set up and so successfully operated -- the grain marketing association.

"Farmers were never completely satisfied that we were receiving all our grain was worth when we had no alternative except to deliver to the line elevators and take what was offered, and we never learned or were told what the cost of handling a bushel of grain was -- we just took our ticket in payment, and that was the last we knew of that load. The satisfaction derived from the Canadian Wheat Board of 1919, which narrowed the spreads and gave us an initial payment and an interim and final payment, made a lasting impression on the farmer. The low prices for grain during the early 1920's and the resulting farm economy was of such a nature that drastic action by the producers seemed the only way out of the terrible financial position, we, as producers, were in.

"A great many farmers always felt that there would be more stability in price if speculation and the futures market in grain was replaced with the Wheat Board method of marketing. The dissatisfaction prevalent, in our opinion, led to the formation of the Western Pools. The satisfactory experience of first the Canadian Wheat Board and then the Western Grain Pools led to securing a greater measure of control by the producers through the acquiring of their own handling facilities. Our Pool Elevator was purchased in

1928. We signed up enough local growers to form an Association. The Association was formed by each member applying for a share which, when issued, entitled him to a vote. This elevator is managed by a Board of seven directors appointed annually by the members of the Association. The Board holds frequent meetings and looks after the interests of the members. Annually there is a meeting of all members, at which a report of the year's operations of the Association is presented, with an accounting by the District Director on the financial standing of the local. A delegate is also appointed to attend the annual meeting of Manitoba Pool Elevators. At this meeting of delegates, representing all cooperative elevator associations in the province, the Directors of Manitoba Pool Elevators are elected for the following year. All associations are grouped in seven districts, each district electing a director, so there are seven directors forming the Provincial Board, and this Provincial Board acts as trustee for the locals, superintends the elevators, and makes an initial payment on all grains and a final payment in the form of patronage dividends on the year's handling. As we have said, our cooperative elevator has been successful. Total cash refunds to our members to date have amounted to \$21,839.24. Our elevator had handled a total of 1,957,600 bushels of all grains up to July 31, 1944, of which 325,409 bushels were cleaned at the local point. 752,503 pounds of screenings from grain cleaned have been returned to owners to be used as feed for livestock, and as a result of such cleaning there has been a saving of approximately \$1,350 in freight charges on dockage. Of the total bushels handled, 95 per cent were delivered by members.

"Having purchased a second elevator at Decker in June, 1943, all the grain-handling facilities at the point are cooperatively owned by the farmers of the district and the greatest satisfaction prevails. Now we are one happy family and there is a much better feeling in the community. We feel that we have accomplished something worthwhile through the united effort of the people. We look upon these elevators as just another machine of the farm, as much so as a threshing machine or combine. Now, through this united effort, we as producers have control from the time the grain is threshed until loaded into the boats at Port Arthur, as we also own our own terminal elevators. The earnings of these terminal elevators also help to swell the income of the producer and give him all the knowledge of how his grain is handled. Thus the knowledge gained from owning our grain-handling facilities has proven to be members that there was cause for uneasiness among the growers prior to the farmers starting to run their own business. We believe the operations of our cooperative organizations, with control in the hands of the people, is Democracy in action.

"Our Association has formed a 'Better Seed Club', which has been growing certified seed grain for the last three years. This activity has improved our grain considerably.

"Through our efforts and those of the Women's Institute, we have a Blue Cross Hospital Unit in our district.

"All of these undertakings have only been made possible through united effort and cooperation. The people of the Decker district have benefited as a result of

their operations.

"We are proud of what we have accomplished and the results obtained from the undertakings. We have not been looking for profits; we have tried to improve the financial position of the farmers. We have been looking after our own business, and resent the suggestion being made that we established cooperatives to avoid the payment of income tax. It is our contention that all profits of line elevator companies, and the taxes paid by them on the profits, are made possible because the companies, in dealing with the farmer, make the handling charges high enough to produce a profit.

"We claim that the moneys we call patronage dividends on our deliveries of grain do not belong to the cooperatives, but to members, where they become part of the members' personal income, and as such are then taxable if the income is sufficient.

"To illustrate the fact that patronage dividends do become income of the members, and that the Dominion Treasury collects income tax on these moneys after distribution, our President, Mr. Finkbeiner, who is submitting this brief on our behalf, has consented to place his income tax returns before you. This submission shows that Mr. Finkbeiner paid \$33 more income tax as the result of patronage dividends received by him. This instance should be related to our total membership, for we are convinced that through cooperative action, the revenue and income of farmers has been improved, so that today thousands and thousands of farmers are paying income taxes for the first time.

"It is our contention that farmers are pleased to be in the financial position where they can help finance the country and the war that our boys are fighting, and

we consider it a privilege to get enough income to help. This is what we have been working for; this is what we organized for -- to give to us, the farmers, an income sufficiently large to enable us to contribute through personal income tax assessments.

"Having outlined the financial advantages of working together to provide 'Service at Cost', may we cover some of the moral obligations we have assumed. It is our obligation to see that our families are well provided for. In the early 1930's, when prices for grain were ruinously low, the few extra dollars were to most of us like 'Manna from Heaven'. Another moral obligation we owe to ourselves is to see that our children get a good education. We are trying to make good citizens of them by working together for the benefit of all of them, and not as greedy individuals. Already we can see the results of our efforts. We are only performing the duties of good citizens.

"In conclusion, let us quote from one of our famous politicians. When he came to the country for re-election and wanted to flatter the farmer, he would say: "You farmers are the brains and brawn and sinews of this Fair Dominion of ours." Those words have stuck with us, and as we ponder over them we find how very true they are. The Lord gave us all brains to use, and we, as members of cooperatives, are putting them to work, with determination and sincerity of purpose to do right.

'Not for selfish greed or boast of pride, have mercy on thy people, Lord!'

"Respectfully submitted,

Decker Co-operative Elevator
Association."

BY MR. PARKER:

Q. I suppose the following passage on page five of the brief is rather to be treated as rhetorical than to be taken literally: "This is what we have been working for: this is what we organized for -- to give to us, the farmers, an income sufficiently large to enable us to contribute through personal income tax assessments."

A. That is exactly it.

Q. It is your great desire to pay income tax?

A. We are proud to pay it.

Q. Are you serious about that, or is that just a bit of eloquence? A. We are speaking as a Board.

Q. Further down you say: "In the early 1930's, when prices for grain were ruinously low, the few extra dollars were to most of us like "Manna from Heaven". Isn't that equally true of every professional man and of every citizen in the country? During that period their incomes were terribly reduced? A. I suppose so.

Q. That was not peculiar to cooperatives?

A. We are thankful for it.

Q. Were you any more thankful than anybody else? I was wondering what you had in mind in putting that statement in. On page four you say: "We are proud of what we have accomplished and the result obtained from the undertakings. We have not been looking for profits; we have tried to improve the financial position of the farmers." I cannot see the distinction between the two.

A. We as farmers are in a different position from most professional men or big concerns. We are looking for a living and we never call it a profit if we get enough to live on.

Q. No matter how much you got, you would not call it

profit? A. We don't call it profit.

Q. Why not? A. We just call it earnings.

Q. If it costs you 75 cents to grow a bushel of wheat and you sold it for \$1.25 would you not have a profit? A. It is more income. We don't even know what it costs to grow a bushel of wheat.

Q. Let us assume that it costs you 75 cents to grow a bushel of grain. If you can sell that grain for a \$1.25, do you not agree that you are making a profit of 50 cents? A. No. I would call it higher earnings off the farm.

Q. If it costs me \$50 to make a suit of clothes and I sold it to you for \$75 wouldn't that be a profit? A. I would not call it a profit. You would have earned that much more.

Q. Is there any difference between the two? A. I can't tell what interpretation you put on it.

Q. Is there any difference between the \$25 that the manufacturer of clothing would make on a suit of clothes in that illustration and the 50 cents that you would make on the bushel of grain in the case I put to you? Do you see any difference? A. I can see that there are more earnings.

Q. In each case? A. Yes.

Q. One more question. You say in that same paragraph: "We have been looking after our own business, and resent the suggestion being made that we established cooperatives to avoid the payment of income tax." Let us withdraw any suggestion that that is why you organized. But if as a matter of fact you have not been paying income tax, have you not received a benefit whether you intended it or not? Do you agree with that? A. I don't get that question.

Q. I said, I will agree with you for the moment that you did not organize cooperatively for the sake of avoiding income tax, but you did organize, and so far you have not

been compelled to pay income tax? A. We had higher earnings on our farms in the last few years.

Q. Your Association does not pay income tax as such? A. I don't think they have a right to pay, because they have no money.

Q. I would like to have the memorandum of association and the articles of this Company and the one preceding it.

MR. SCARTH: Yes.

BY MR. THORVALDSON:

Q. You paid \$33 more income tax as a result of patronage dividends received by you. If you had received dividends from an ordinary company you would have paid the same income tax. There is no disagreement on that, that you pay income tax on your patronage dividends, but similarly you would pay income tax on any other dividends you might receive. A. If I had not received any dividends I would not have got that much money on my grain in the first place. Somebody else would have got it and paid taxes on it.

Q. If you had received dividends from an ordinary company you would have paid income tax on those also?

A. Yes.

Q. On page four you say: "To illustrate the fact that patronage dividends do become income of the members, and that the Dominion Treasury collects income tax on these moneys after distribution, our President, Mr. Finkbeiner, who is submitting this brief on our behalf, has consented to place his income tax returns before you." You also say: "We claim that the moneys we call patronage dividends on our deliveries of grain do not belong to the cooperative, but to members, where they become part of the members' personal income, and as such are then taxable if the income is sufficient." A. Yes.

Q. You say that these moneys do not belong to the cooperative but to the members. Would you agree with me if I said to you, "We claim that the moneys we call dividend on our investments do not belong to the company but to the shareholders?" Would you agree with that? A. I don't just get that question.

Q. You maintain that the patronage dividends, what the association pays to you in dividends, do not belong to the association but to you as a member. Would you agree with me if I said that the money that is earned by an ordinary corporation belongs to me as a shareholder and to other shareholders? A. If you were in a cooperative I would say so.

Q. Only if I were in a cooperative? A. Yes.

Q. What is the difference between a corporation and a cooperative in that regard? Is there any difference? A. Yes.

Q. They are both corporations, are they not? A. I have never heard it brought out what a cooperative is -- that is, what you term a cooperative -- and what a corporation is.

Q. Your cooperative is a corporation? A. Our cooperative? No, it is not.

Q. It is a cooperative corporation? A. No; it has no shares.

THE CHAIRMAN: I do not know whether you are being enlightened, Mr. Thorvaldson. We are not.

BY MR. THORVALDSON:

Q. No, Mr. Chairman. I will leave that. Now at the top of page four you say: "The earnings of these terminal elevators also help to swell the income of the producer and give him all the knowledge of how his grain is handled."

You prefer to use the word earnings rather than profits?

A. Yes.

Q. You do not like the word profits? A. I have never been used to it.

Q. Do you as a farmer make profits? A. We don't term it that. We don't know whether we have made a profit or not, only when our earnings are large enough to pay income tax.

Q. You paid income tax, and it looks as if you made an earning, in 1943? A. Yes.

Q. Then would it be correct to say that you had made a profit? A. I would say I had a large enough income to pay income tax.

Q. Do you believe in the profit motive, as a farmer? A. Not in the way you call it a profit.

Q. Do you believe in earnings? You like to make a profit or an earning? A. I am not terming it a profit.

Q. You are terming it earnings? A. I am looking for a living and as long as I can live I am satisfied.

Q. And if you get a little jam on the bread and butter you are still more satisfied? A. That is what we are all looking for.

Q. And the jam is not a profit? A. I don't term it that.

Q. What do you call it? A. Jam is a thing you get in bottles.

MR. PARKER: Jam is also sometimes what you get into in the witness box.

MR. SCARTH: May I take the other two briefs now, Mr. Chairman. That will complete the four -- unless there are other submissions to be taken first.

MR. PARKER: The party who was to come on now has not

arrived.

THE CHAIRMAN: Go ahead, Mr. Scarth.

G. SIMUNDSON,

Secretary,
Arborg Co-operative Elevator
Association,
having been duly sworn
testified as follows:

BY MR. SCARTH:

Q. You are Secretary of the Association? A. Yes.

Q. You have a brief? A. Yes.

Q. Was it presented to your Board? A. Yes.

Q. You are familiar with the contents? A. Yes.

Q. They are correct to the best of your knowledge?

A. Yes.

Q. Will you read the brief. A. The brief reads
as follows:

"Submission of Arborg Co-operative Elevator Association
to Royal Commission on Co-operatives - 1945.

"Arborg is located about seventy-five miles due north from the city of Winnipeg, on the banks of the Icelandic River. The earliest settlers arrived in 1875. A large portion of the land surrounding the town consists of some of the best grain growing soils in the inter-lake area and the two biggest factors that so long withheld it from utilization for that purpose were that the lower lands were more or less under water and the higher land was mostly covered by heavy timber. During the first few years the pioneers lived a very primitive life as far as their material supplies were concerned. As farmers, their only source of income was derived from the few head of livestock which they kept through very adverse conditions. Although grass was plentiful it was often no easy work to put up hay to feed their

sheep and cattle during the winter. The grass was cut with a scythe and when dry, often carried on poles to high spots and stacked where it was reasonably safe from spoilage by floods, which were sure to follow a rainy spell any time in the summer and fall. From their sheep the people got wool, which again was spun and knitted into winter clothing, and from the cows they got milk, which again produced butter, the only produce which would be readily traded with their local merchant, but those merchants were very conservative in paying cash for this produce. In many cases farmers who had a favourable balance of trade with the merchant had a hard time to get enough cash released to pay their taxes, which at that time amounted to only a few dollars a year.

"Naturally, under these conditions all progress was slow. But in 1907 these people organized a cooperative creamery. They were fortunate to get a personal loan to buy the first equipment. The buildings were built from lumber produced locally and constructed with local labour. Ice was stored just before the river broke up in the spring and the machinery was hauled with horses from Winnipeg Beach, a distance of forty miles, on last sleighing in the spring. The farmers delivered their cream to the creamery during the summer, but received no payment as the butter had to be stored until it could be hauled away next winter and sold. It was after the butter had been sold that the farmers got the returns for their cream. Since that time the business turnover of the creamery continued to increase until it fell off somewhat during the last two years on account of reduced cream production caused by shortage of manpower. The creamery has, besides paying a full market price for

cream, paid a handsome sum in price improvement during many of the years it has operated.

"In 1910 the railroad came and the town of Arborg began to take shape. It was, and still is, the end of steel. With the railroad came the opportunity to dispose of fuel wood and until quite recently a large portion of the settlers got a major portion of their income from cutting and selling cordwood. This occupation, after considering its exhaustive taxation of muscular energy, both of man and animals, has been worst paid as a whole, although reasonable prices have been paid at odd times during the years.

"In 1919 the Arborg Farmers' Co-operative Store was started, and during its twenty-five years of existence it has expanded until it now deals with groceries, dry goods, considerable volume of hardware, operates a meat market, runs two P.S.V. trucks, keeps an oil station, operates a seed cleaning plant, as well as handling a large volume of farm produce. The store was for a long time operated on too narrow a margin to prevent it from building adequate reserves as well as financing the expansion of business. This put it into a serious financial condition during the worst depression slump. Although financial means of most farmers at that time were very meagre they managed to subscribe considerable share capital as well as advance substantial personal loans, and with this additional capital the store managed to survive the financial pinch of the depression. Later, when money again was more available, those loans were gradually repaid. Also, during the last few years all debts with wholesale concerns have been paid up.

"Prior to the building of the railroad, the settlers were all of Icelandic origin, but around that time a

large number of people of different nationalities, the majority of them Ukranian immigrants started moving in and homesteading the land available within a reasonable distance from the railroad. These people derived means of living from the timber which more or less covered their land, and for over twenty years Arborg was a large shipping point for cordwood, pulpwood and lumber. The Icelanders did not have many things in common with the new settlers and each group viewed the other with suspicion and distrust, and for a long time few things happened to smooth out that friction.

"As has been said before, little land was suitable for agriculture in its original condition, and for many years grain growing was limited to small fields which had been cleared out of bush on high land. The grain grown was mostly consumed by livestock. Around 1920 considerable advances were made in draining land suitable for agriculture and extensive breaking of new land followed, and in 1922 a line elevator was built at Arborg. This elevator was of a very primitive design, had no cleaning facilities and offered very limited service. During harvest the agent closed at an early hour and farmers hauling grain straight from the thresher could not make deliveries of loads threshed late in the afternoon until next day. Repeated appeals to the owners of the elevator to instal grain cleaning machinery in the elevator brought no results. Prior to that time, farmers having odd lots of grain to sell usually clubbed together to make up a carload which they loaded over the platform. During the worst depression, efforts for expansion almost came to a standstill, as the price of grain was so low that increasing its production for marketing purposes was worse than useless, but with the

grain prices again on the upward swing, along with the gradual exhaustion of timber and decrease of seasonal work for farmers in connection with the fishing industry on the lakes, more and more farmers turned their minds to obtaining their livelihood from the soil by grain growing and stock raising. More grain was sold and dissatisfaction over dealing with the elevator grew. During recent years, as the previously stumped bush land has been cleared, a large acreage of some of the most fertile soils have been reclaimed for grain growing.

"By this time many farmers were so dissatisfied in doing business with the Arborg elevator that they started trucking their grain to distant points, in many cases all the way to Winnipeg, and found it profitable, after paying delivery charges of 8 cents to 10 cents per bushel. Realizing this tragical waste of money, an organized movement started to negotiate with the Manitoba Pool Elevators to come to our assistance in starting a co-op. elevator in Arborg. After looking into the volume of grain trade done at Arborg they tried to discourage us from any such undertaking, but consented to try and buy the elevator already operating at Arborg. When its owners were approached they flatly refused to sell out.

"Further local organization work continued, and when the Manitoba Pool Elevators realized the determination of the farmers to form an Association and a desire to own their own grain marketing facilities, their Board of Directors finally agreed to come to our assistance, providing the people themselves would subscribe a minimum of \$6,000 in money, material or labour as a guarantee fund to be used as working capital. A committee was selected to canvass people of the community to raise this amount.

They met with a very favourable response, and among contributors were the vast majority of the farmers, established local cooperatives, several retired old age pensioners, as well as substantial amounts from most of the private business men in the town. Among these contributions were a \$100 cheque from the village blacksmith, \$100 from each of two garages, \$50 from a general store, and many others. These voluntary contributions amounted in total to \$6,497.82. Also worthy of mention is the contribution of the local bank, which handled all cash contributions, making out receipts for same and doing all accounting free of charge. All this money and material was subscribed for use without interest and no guarantee of repayment except the anticipated financial success of the local association. This money was treated as a working capital loan and a certificate was issued to each person making a loan.

"In spite of flat refusals of the owners of the line elevator to repeated appeals of the producers to instal grain cleaning machinery, as soon as we were going ahead to build a new elevator they immediately remodeled their elevator by putting in a cleaner, installing a new motor as well as other improvements.

"Our membership, which now is over 400, is made up of all racial groups, and our Association has been an influence in drawing the people closer together, creating a much better understanding and developing a spirit of neighbourliness. Our Association is democratic, with each member having one vote. It is managed by a Board of Directors of seven, and on this Board are representatives of the different racial groups and they work harmoniously together. Since

the starting of the Association the farmers of the district have had an opportunity of learning much about the grading, marketing and sale of grain. Our Association submits to all members an operating statement, as well as a balance sheet. The operating statement gives full information as to grain handled, any gains or losses in grades dockage and weight. In securing this information the farmer knows how his grain has been handled. This has created a great deal of confidence and the dissatisfaction that previously existed has disappeared. Evidence of this confidence is that approximately 70 per cent of the grain marketed at Arborg is delivered to our cooperative elevator.

"Our Association entered into an Agreement with Manitoba Pool Elevators under which Manitoba Pool Elevators became our agent and trustee for the marketing, financing, bookkeeping, superintendence, etc. Under this agreement we agreed to pay our proportionate share of the expenses of Manitoba Pool Elevators for the services rendered.

"Manitoba Pool Elevators is controlled by all the associations working together. Our Association elects a representative who attends the meetings of Manitoba Pool Elevators when policy is decided upon. Manitoba Pool Elevators is managed by a Board of Directors of seven. These directors are elected by the associations grouped in districts and our Association exercises its right to vote at the election of directors. This is government by representation. Under this system the associations have control and can change the directors of Manitoba Pool Elevators and the operating policy any time a majority of the Associations desire.

"Our cooperative elevator has handled four crops since it was built. It is equipped with modern machinery, both for

fast handling and cleaning commercial grain and seed. As far as we know, since it started operating, not a single load of grain has been trucked away from the Arborg district to be sold at a different elevator. On the other hand, the territory serviced by Arborg has greatly expanded.

"In the four years of operation 547,494 bushels of grain have been delivered to our elevators, of which 522,806 were members' grain, which represents 95.49 per cent of total handled. 60,293 bushels have been cleaned. 132,332 pounds of screenings have been returned to farmers on which an estimated saving on freight of \$211.73 was made.

"The first year we were just able to meet operating expenses, interest and payment on construction loan; the second year there was a small surplus, of which \$215.53 was repaid to members; the third year we had a surplus of over \$6,000, from which we retired the loans which had originally been made by people in the community who were not members of the Association. These loans retired amounted to \$1,688.17. As well, a patronage dividend of \$1,933.38 was paid to members. Last year, resulting from operations, we had a surplus of \$8,122.99, out of which we retired the balance of the original loans made by members, an amount of \$4,809.65.

"The members of the Association look upon their elevator as a machine for marketing their grain, owned as a group, which increases their income. It has been an influence in securing better prices and lowering cost of handling. The surplus resulting from operation is not a profit on money invested. All surplus over and above operating expenses goes back to the producers as a price improvement which is an increase in their individual income. This

additional income often puts the farmer in a higher income tax bracket.

"Since early settlement, farmers in the Arborg district have faced many difficulties. We have experienced very little prosperity but a good deal of depression. Farmers have worked very hard and long hours for what material gain they have received. We have learned that united action has brought beneficial results; the story of our Co-operative Creamery, of our Co-operative Store and of our Co-operative Elevator all prove that we, the farmers, can and must find the solution to our problems. In this way, we believe, we can bring about a condition of stability and place farming in a more secure position and also bring to the men on the land a measure of equality with those engaged in other walks of life.

"We shall resent the action of any body, or any government which makes it difficult for us to carry on our co-operative activities.

"Respectfully submitted,

Arborg Co-operative Elevator
Association."

BY MR. PARKER:

Q. You say on page five: "Last year, resulting from operations, we had a surplus of \$8,122.99, out of which we retired the balance of the original loans made by members, an amount of \$4,809.65." Then you say in the next paragraph: "The surplus resulting from operation is not a profit on money invested." Is it not true that if you did not have money invested, or if somebody did not have money invested in the elevator, you could not possibly have made that surplus? There had to be capital invested in building the

elevator? A. That will be dealt with in the main brief, but we don't call it an investment. It is a revolving fund.

Q. You know enough about investments to know that if you go and buy an elevator for fifteen or twenty thousand you have an investment in that elevator to that extent?

A. We are working to the point where we ourselves as farmers own that elevator.

Q. But in the meantime is there not an investment of somebody in that elevator? A. We borrowed the money.

Q. But you have since paid it back and now you own it. Has not someone an investment in that? A. Perhaps you are not familiar with it.

F. B. GEHRING,

Sperling Co-operative
Elevator Association,
having been duly sworn
testified as follows:

BY MR. SCARTH:

Q. You have been a member of the Association how long? A. Since 1926.

Q. You have been on the Board? A. I went off as President this fall.

Q. You have prepared a brief? A. Yes.

Q. Has it been approved by the Board?
A. Yes.

Q. The contents are correct to the best of your knowledge? A. Yes.

Q. Will you read the brief. A. Yes. It reads as follows:

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"Submission of Sperling Co-operative Elevator Association
to Royal Commission on Co-operatives - 1945.

"Sperling is a village situated about thirty nine miles southeast of Winnipeg on the C.N.R., in the northwest corner of the municipality of Morris. Its population is about 250. The farm land around Sperling is all open prairie, and is practically all farmed.

"The district contributory to the shipping point of Sperling comprises about three townships. There are three elevators in the village at the present time, one of which is the Sperling Co-operative Elevator, owned and operated by the members of the Sperling Co-operative Elevator Association. The other two are owned and operated by line companies.

"The people of the district are mostly of the Anglo-Saxon races.

"Early in the history of the town of Sperling there were three elevators operating at the point. Farmers at that time did not know there was any difference between the price they received at the elevator for their individual loads to the price which they would receive for a carlot shipped to the terminals, and this condition prevailed for a number of years.

"Platform loading started about 1906, but at first only the odd man used the platform. We would like to go back to this period and state the experience of two farmers who later became members of our Association. One was marketing the first crop of wheat he had grown on the virgin prairie land of this district. Being some distance from the railroad and the elevators, it was necessary for him to draw his wheat with horses in small 50-bushel loads and accept the street price, taking the spreads then practiced

by the line elevators. The second was Mr. Robert Nichol who was the first farmer to take advantage of the provisions of the Canada Grain Act, which allowed farmers to load their grain directly into railroad cars from a platform and make shipment direct to the terminals. When these two farmers compared the net prices received for their wheat it was found that Mr. Nichol who loaded over the platform, received 13 cents per bushel more than the one delivering in small loads to the line elevator, and this was for grain considered by them to be of equal quality and grade. This platform shipping grew continually until practically every man in the district used the platform, dependent only upon car supply. As the use of the platform facilities grew, the growers commenced to use portable loaders, and it was not an uncommon sight to see the railroad track in the village of Sperling lined with a number of these portable loaders, up to a dozen at a time.

"While loading in this manner had its advantages, the farmers being more satisfied with grades, weights, prices, and so on, it also had its disadvantages, as rain or bad weather would stop loading and demurrage would be charged on cars. It was also necessary at times to mix the lower grades of wheat in with the higher, and load all into the one car.

"This then, was the picture of the machinery the farmer had for handling and control of his grain at Sperling in these earlier years. Approximately 50 per cent to 60 per cent of the grain at Sperling was loaded in this manner just before the Co-operative Elevator Association was formed and a large elevator built.

"The need for a better method handling and control of his grain was felt by a majority of the farmers of the

district. They sought a solution for the large waste of man power required to operate these portable loaders, and through the medium of the meetings held under the old Wheat Pool, got together and studied the possibility of joining together to acquire an elevator to handle all their grain -- to give 'Service at Cost', thereby reducing the cost of operation and production. At that time, 1926, there were three elevators being operated by line companies at Sperling, one of these being torn down at a later date. None of these elevators had very good cleaning facilities, the elevators having the old type wooden cleaners, that were neither fast or efficient. These were rarely if ever used, and grain delivered to the elevators was shipped down to the terminals just as received from the threshing machines, with the resultant loss of grade and price, and necessitating the extra cost of freight on dockage.

"In 1926 then, a Co-operative Elevator Association was formed and a 60,000-bushel elevator was built, with the purpose of securing the best possible service at the lowest cost. Needless to say, we were dumfounded at the amount of our savings, which otherwise would have gone to the line companies and no portion of these savings would have been returned to the actual grower. This actually reduced our cost of production by just that amount, the elevator in our opinion being merely an extension of our farming machinery.

"When Pool Elevator was constructed we installed modern equipment, which gave the farmers faster and more efficient service and with up-to-date cleaning facilities, which resulted in better grades, prices, and large savings were effected through the cleaning of the members' grain. Seeing the results the Pool was obtaining through this modern elevator, and apparently in an effort to secure a larger

volume of grain, the Line made improvements and installed new cleaners, so that the benefit has not only been derived by the Pool members but by all the farmers in the district.

"At the present time there are about 130 members of the Sperling Co-operative Elevator Association. Through our organization the members have learned much about the factors influencing prices, quality, spreads, elevator and terminal operations, and the many other ramifications in the handling of grain. Before the Pool entered the picture we did not know what a cut-off meant and never saw figures for overages, shortages, grade gains and losses, etc. Now we have all of this information and this is passed on to all the members. They need only ask our Secretary and he, having the figures, can give them out at a moment's notice. The financial statement -- completed by auditors of our own choice, gives the complete picture, showing receipts, expenditures, the amount remaining in the surplus account and so on. The Association is open to all producers who join and pay a membership fee of \$1. No shares of stock are owned by any member, and each member has one vote. It does not matter whether he delivers 500 bushels or 10,000 bushels, he is on the same level as the next fellow.

"All officers are elected by the members at the annual meeting, the officers consisting of seven directors, who at their organization meeting select a chairman and secretary. In our Association, three directors are elected one year and four the next, to serve for a two-year term. Any member is eligible for nomination as a director, but a member after serving a term of two years is not eligible for nomination until one year has elapsed, which we believe

gives a larger number of the members a chance to serve as directors, and thereby learn more of the business.

The Sperling Co-operative Elevator Association since 1926 has handled 4,513,000 bushels, with the following results:

"Returned in cash patronage dividends to its members	\$106,556.76
"Bushels cleaned	905,845
"Screenings returned to growers (in lbs.)	3,317,770
"Estimated saving on freight		\$ 5,000.00
"Members' percentage of net bushels handled		94.92 per cent

"At the local annual meeting our official delegate for the year is elected, and his duty is to attend the annual meeting of Manitoba Pool Elevators and any other meetings called during his term of office. At the annual meeting of Manitoba Pool Elevators our delegate, with the other delegates from the Associations in our district, meets to elect a man to sit on the Board of Directors of Manitoba Pool Elevators. This procedure is followed annually, and because of this annual election, we can change a director if we feel it necessary, and we have complete control over the policy of the organization.

"A record is kept of all deliveries by each member each year and the amount of surplus or saving is allocated to each member according to the number of bushels of grain delivered in each particular year. These savings are placed in Working Capital Reserve and later, beginning with the first year's reserve being taken care of from the first moneys available, the second from the next, and so on, which is commonly termed the 'Revolving Door' method of payment. Each member therefore eventually receives every

dollar of savings to which he is entitled according to the deliveries made by him. Here again we would point out that but for Manitoba Pool Elevators, and each and every elevator association, these savings would not go back to the actual producer to reduce the cost of production, but would go to line the pockets of the investors in various elevator companies, who in themselves are not contributing anything towards the earning of these moneys.

"The Sperling district has been fortunate in not having a crop failure since the elevator commenced operations, and has always had a surplus from operating.

"In 1940 when terminal and elevator storage could not take care of the accumulating surplus of grain, the local Association built two annexes with a storing capacity of 130,000 bushels. This was filled to capacity the first year, and at the present time they are carrying over 60,000 bushels in store. The added storage space was of great value to our members.

"Recognizing that the quality of the product our members have for sale greatly influences their financial returns and further recognizing the value of good seed of recommended varieties, our Association sponsors a Seed Growers' Club. This Club has taken the lead in introducing good seed and new varieties of seed, and from an economic standpoint this has been worth thousands of dollars to us. We can safely say that 99 per cent of the improved varieties of seed introduced into our district in the last fifteen years has come through the medium of seed plots sponsored by the Pool Elevator. It is hard to estimate the value to the members and to the non-members alike in the area, as the seed has improved the purity and quality of grain grown in the district to a large extent.

"From the experience gained by members in the Elevator Association, which first established the principles of cooperation, producers in the district organized the Sperling Co-operative organization and supplies all of its members with much needed supplies, such as oil, fuel, twine, coal, hardware, and most of the requirements of this nature at a saving, which further helps to reduce the cost of production. We strictly adhere to our own business and have no desire to interfere with the business of others. We make a sincere effort to do business only with members, and through the success of our efforts many other persons in the district are encouraged to become members.

"Our Associations have been a beneficial influence in the community life of the district. We have taken a keen interest in the Manitoba Hospitalization Plan, and at present forty-four families in the district are protected. Many more are interested in joining at the next available opportunity.

"Through our connection with the provincial organization by being members of the Manitoba Federation of Agriculture, the Canadian Federation of Agriculture, we feel that we have a very definite voice in determining agricultural policy. These bodies now carry considerable weight, and are often consulted by both the provincial and dominion governments over various policies connected with agriculture.

"All the cooperative organizations of Sperling are tied up with the rest of Canada, as mentioned before, through the Manitoba Federation of Agriculture, the Canadian Federation of Agriculture. These bodies keep all members fully informed of events taking place locally, as well as throughout the whole of Canada and the world. Then, too, all members subscribe to our own paper, which brings to each

individual member and his family the doings of the co-operative organizations everywhere.

"Thus, through the medium of our own press, our memberships in the various cooperative bodies, and through our own local meetings, both monthly and annually, the farmers of this community know that through cooperation they have brought about better living conditions to the whole community, not only to themselves, but to our neighbours and friends. This is not only through the increase in their income, but also by education of the people in learning to work together. The achievement of the farmers in extending their farm practices to include the handling of their own grain, has been a constant source of gratification to them. They are justly proud of this, and they have a good deal more self respect than they had twenty years ago. Sperling, and the many hundreds and thousands of other villages and towns throughout the West, are definitely better places to live in as a result of cooperative action and people working together more now than they have ever done in the history of mankind.

"Respectfully submitted,

Sperling Co-operative Elevator
Association."

.....

BY MR. PARKER:

Q. On page three you say: "No shares of stock are owned by any member, and each member has one vote. It does not matter whether he delivers 500 bushels or 10,000 bushels, he is on the same level as the next fellow." Does everybody who delivers wheat, no matter how small the amount, become a member? A. Ninety-four per cent of those who deliver wheat are members of the Association.

Q. How does he become a member? A. By signing an application for membership.

Q. Does he have to be a deliverer of wheat?
A. To become a member, certainly.

Q. Is there any fee? A. One dollar.

Q. And that comes with the application? A. As a rule it should come with the application but sometimes it is taken out of his first certificates.

Q. He becomes a member as soon as he ships?
A. As soon as he signs his application.
Q. He is made a member before he signs the application?
A. Not before he signs.

Q. What is his status in the interval? A. He is an ordinary deliverer.

Q. One other thing -- it may be simple to you but not to me. In your brief there is something about screenings, talking about beneficial results. What happens to the screenings of wheat delivered to the line elevators?
A. They can be returned under the present set-up. My reference was to the fact that most of the line companies did not give the farmer the benefit of these screenings until after the pools established modern cleaners.

Q. In those days what was done? A. It was shipped with the wheat.

Q. The farmer did not get them back? A. No; it was shipped to the terminals.

Q. And that lowered the grade of wheat? A. Yes.

Q. Now you have a better grade and get the screenings back? A. Yes.

Q. On page four you say: ".....these savings would not go back to the actual producer to reduce the cost of production, but would go to line pockets of the investors in

various elevator companies", -- referring to the line elevators? A. Yes.

Q. ".....who in themselves are not contributing anything towards the earning of these moneys." Do you say that the investors in the line elevators, putting up large sums of money and furnishing these facilities, are not entitled to any return on that investment? A. Capital investment of stock but not as actual production of that grain. In our Association the man who produces the grain participates in the earnings to the amount he contributes to the Association.

Q. Somebody has to invest money in an elevator before it can be built, whether it be the farmer or these other people. A. Banks and governments have done it.

Q. Isn't that money entitled to a return?
A. It is, also, in the elevator associations.

Q. Are they not entitled to some return on that money invested? A. Yes.

Q. And do they not get it in an increased price for wheat? A. In part. Any money invested in our local association pays money on the investment.

Q. I am talking about moneys left there and on which no interest is paid. They really get interest under another name. A. They may.

Q. Isn't it obviously so? A. It may be.

Q. Is it obvious to you? A. Certainly it is.

Q. You do furnish various types of supplies to the wheat growers of your Association? A. This is another association distinct from the elevator association. It is purely a cooperative association established by the farmers in the district, which goes by the name of Sperling Cooperative.

Q. There are two cooperatives, one dealing in wheat and the other in supplies which the farmer requires?

A. Yes. They have different boards of directors.

Q. Are they both members of the pool? A. Most members of the elevator are members of the other.

Q. The ones that handle wheat and the ones that handle supplies -- are they members of the Pool?

A. They are distinct associations.

Q. But are they members of the Pool? A. They are pools themselves and they form their own cooperative associations. At the present time they are members of the Co-operative Wholesale but at that time they were not.

Q. On page five you say: "All the cooperative organizations of Sperling are tied up with the rest of Canada, as mentioned before, through the Manitoba Federation of Agriculture, the Canadian Federation of Agriculture." Are you tied up in any different way from the ordinary line companies? Do they not get the same services?

A. The Federation of Agriculture is a farmers' organization and they are supposed to get benefit from it.

Q. Do not the line companies get the same benefit from them as the cooperatives do? A. I have nothing to do with the line companies.

Q. What is your object in putting that phrase in the brief? To indicate that you are getting something that the line companies were not? A. No. The object was to show that the cooperative is a body with the rest of the co-operative federations.

Q. The Pool prints its own paper? A. The Pool paper is the cooperative paper. The elevator association contributes to that for its members.

Q. What paper do you refer to? A. The Co-operator.

Q. Who publishes it? A. I could not say.

Q. You do not know whether the accounts in connection with the printing are kept separately, or whether it is a paying proposition? A. I do not know.

Q. Will you file your memorandum of association and by-laws? A. Yes.

C. P. BURGESS,

Managing Secretary,
The Western Canada Fuel
Association,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. On whose behalf do you appear? A. In making this submission I am doing so at the instance of our membership.

Q. Of the 1,273 members for whom you speak, how many have seen or approved of this brief? A. Our organization is such that we have twenty-one directors representative of three branches of industry and they are empowered after election at each annual meeting to speak for the entire industry, or our membership I should say.

Q. Was this submitted to them? A. It was submitted to the directors.

Q. At a fairly full meeting? A. Yes.

Q. Will you read your brief? A. It reads:
"Statement submitted on behalf of Western Canada Fuel Association, 316 Nanton Building, Winnipeg.

"The Western Canada Fuel Association is now in its twenty-sixth year of continuous operation, is comprised of coal operators, wholesalers and retailers extending from the Head of the Lakes to Vancouver Island and consists of

1,273 members. The purpose of the Association is to further the best interests of consumer and the industry alike.

"1. Our statement applies particularly to the present inequalities in taxation as they affect those who are subject to Dominion income tax and excess profits tax, namely:-

Individuals

Individually owned or
Partnership or
Corporate business

as against those who are not subject to Dominion income and excess profits taxes as exemplified by federal, provincial and municipally owned business such as:

- a. Hydro electric plants
 Distribution systems
 Electric appliance sales
 Railroads
 Banks and real estate loaning agencies
 Construction companies, etc. etc.
- b. Mutual fire and casual insurance companies
- c. Cooperative societies in their various
 fields of endeavour.

"2. At the outset we would like to make it clear that we are not critical of the establishment and development of the principles of cooperation. It may well be that there is a place in the national economy for government operation of business, for cooperative effort and mutual benefit assurance but in a heavily taxed business economy we submit that they must all stand on their own feet. If the freedoms of a presumably free country are to be preserved ALL must share equitably in the burden of the carrying of taxation.

"3. Over the years, specified sums of money are required by Government at set intervals for the purpose of preserving and solidifying our freedoms and carrying on the business of the country. Individuals, partnerships and corporations have the right to continue their various enterprises but they cannot survive if they are stripped of their earnings through taxation while their competitors as mentioned previously are exempt from similar imposts.

"4. We believe that in a democracy equitable taxation of all kinds of business enterprise should be the rule, both as a matter of equity and in order to maintain conditions of fair competition in business.

"5. In this connection we submit for your consideration the fact that it is the policy of the Dominion Government to maintain fair competition in business and in industry. To this end, it is our understanding that at this very moment a Royal Commission appointed by the Dominion Government under the Combines Investigation Act is conducting an inquiry into cartels and other practices tending towards monopolies, with a view to preventing them.

"6. We therefore submit that it is wholly inconsistent and illogical for the Government to pursue a tax policy of exemption for certain types of enterprise which must eventually result in the creation of monopolies and unfair competition.

"7. The tax exempted organizations referred to herein are usually organized as incorporated companies. They are merchandisers carrying on a trade or business in the same way as those who are subject to taxation. They dispose of services in exchange for money, they produce for sale and they buy to re-sell. If they make profits it is our contention that such profits should be liable to income

tax and excess profits tax in exactly the same way and to the same extent as other business concerns.

"8. High rates of income tax and excess profits tax make it impossible for the ordinary business to put to reserve anything more than the moderate sums allowed by the Minister of National Revenue for the maintenance of business at existing levels, while tax-free businesses are strengthening their financial position or expanding, with consequent loss in tax revenue to the Dominion Government.

"9. It is our feeling that there is general agreement that high rates of taxation may continue for many years to come. If, then, the presently tax exempted organizations were to retain their immunity from income and excess profits taxes there would be grave danger of the presently tax-paying businesses being forced into liquidation.

"10. Under the present arrangement, therefore, it is clear that the tax paying businesses cannot continue to compete with the non-tax paying concerns, and thus will trade monopolies become established.

"11. During the war years, and those which lie ahead, this has created and will create a most unfair situation unless remedial action is taken. All Canadian citizens and business concerns enjoy the protection of our armed forces and other services rendered by the Dominion Government. All should therefore be required to pay their share of the cost of such services and sacrifices in proportion to the earnings realized from their operations.

"12. We submit, therefore, that in all equity, as well as to preserve fair competition in trade and in industry, equitable taxation of all kinds of business enterprise should prevail, that none should enjoy special privileges in this

respect thus preserving the best interests of the nation as a whole.

Western Canada Fuel Association,

Per: Edwin S. Smith, President.

January, 1945.

C. P. Burgess, Managing
Secretary."

.....

BY MR. PARKER:

Q. On page three of the brief, paragraph 7, you say: "The tax-exempted organizations referred to herein are usually organized as incorporated companies." That is, cooperatives? A. Yes.

Q. "They are merchandisers carrying on a trade or business in the same way as those who are subject to taxation." By that you mean an ordinary company? A. Yes.

Q. You say: "They dispose of services in exchange for money, they produce for sale and they buy to resell." You have heard it stated more than once that that statement is not so; first, that they are not carrying on trade and business in the same way as those who are subject to taxation. You say there is no difference in the way co-operators carry on business, that it is no different from private companies? A. The effect is the same.

Q. You make the statement definitely that they do it in the same way? Do you wish to modify that somewhat?

A. No, I don't think so.

Q. That stands? A. Yes.

Q. What do you mean by carrying on business then? They certainly dispose of their earnings in a different way? A. Yes. I was referring to the matter of merchandising.

Q. The so-called consumer? A. Yes.

Q. Does your statement apply to the so-called

producers -- the statement you have in your brief?

A. The difference is that they do it on their so-called cooperative basis. It would be modified to that extent.

Q. I am asking whether or not there is a difference.

A. Yes.

Q. There is a difference between the way a company carries on and a cooperative, in so far as it is a producer?

A. Yes.

Q. What is the difference? How would you designate it?

A. I think that has been pretty well established in the evidence that has already been given. They refer to earnings and we refer to profits.

Q. It does not make much difference what words are used; it is the meat inside that we are concerned about. We want to know how the machine works. A. That is why I was not disposed to modify the statement in any way.

Q. That statement to which I have called attention stands in respect both to the producer and to the consumer organization, or only the consumer? A. I would say to the consumer particularly.

Q. I will not pursue the question. You see my point? A. Yes.

Q. We have been told by many people that there is a difference and you say that there is no difference.

BY MR. SCARTH:

Q. What do you mean by monopoly? I am putting a hypothetical question. Suppose all Canada became cooperative. Would that be one huge monopoly? A. I would say so.

Q. Of Canada? A. Yes.

Q. Of all the people? A. If you have a business organization which precludes one from entering into competition.

Q. Suppose the cooperatives went the entire extreme and ran the business of the country right across Canada, would you call it a monopoly? A. It would be a monopoly if there were no competition.

Q. If all the people of Canada went into such business it would be a monopoly? A. If they were not competing against each other.

Q. If they did not compete among themselves: is that your point? A. We are at cross purposes. My idea of a monopoly is something which makes it impossible for someone else to enter the same type of business and under the system presently employed. How much longer it will last no one knows, the way business is being done.

Q. Let us reverse the proposition. Before the co-operatives started would you say that private enterprise was a monopoly? A. No.

Q. Although it went on all across Canada?
A. Competition took care of that.

.....

Brief submitted by Certain Independent Dairy and Creamery
Companies operating in Manitoba.

MR. PARKER: I understand that this brief is entirely argument and that no evidence is intended.

THE CHAIRMAN: We shall have time for the reading of it before we adjourn.

MR. A. E. DILTS: Mr. Chairman and gentlemen, the brief which I submit on behalf of these dairy and creamery companies is as follows. I may say that there are two names to be added to the list, that is, the Miniota Creamery and the Belmont Creamery.

It reads:

"Introductory:

"This submission is made by the dairy or creamery companies operating in the province of Manitoba whose names are set out at the close of this submission.

"In the province of Manitoba at the present time there are in all, about seventy-one dairy companies carrying on their operations and, of these, twelve are called co-operatives. Of these twelve two plants of the People's Co-operative because the business which they do with non-members exceeds 20 per cent of the value of the produce, supplies or equipment marketed or purchased from the members or shareholders are not within the exemption provided in section 4 (p) of The Income War Tax Act, hereinafter referred to, and pay taxes in the usual way.

"Of the cooperatives nearly all when they commenced business purchased the buildings and equipment of privately owned dairy or creamery companies and two of these purchases have been made since the outbreak of the War in 1939. One of the cooperatives carries on business at five different points in the province. While at the present time the situation created by reason of the fact that the co-operative dairies are apparently exempt from taxation has not become too acute we are of opinion that, having in mind the tremendous expansion of the cooperative movement, we will in the immediate future be faced in Manitoba with the same situation as is facing the non-cooperative or independent dairies in British Columbia, Alberta and Saskatchewan, as shown by the briefs filed on their behalf before your Commission, which we have perused.

"The cooperative dairies which come in active competition with the independent dairies are, by reason of exemption from taxation, placed in a position so much more

favourable than we are in, that we believe it will only be a question of time before the cooperatives actively proceed to acquire many, if not all, of the plants and businesses of the non-cooperatives.

"The Scope of the Inquiry:

"By P. C. 8725 appointing this Commission it is directed to inquire into -

- (a) the present position of cooperatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940, and
- (b) the organization and business methods and operations of the said cooperatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and
- (c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with cooperatives.

"The present application of the Income War Tax Act to Cooperatives:

"The provision of the Income War Tax Act applicable to cooperatives is section 4 (p) of that Act which with the introductory words reads:

'The following incomes shall not be liable to taxation hereunder the income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like cooperative companies and associations, whether with or without share capital, organized and operated on a cooperative basis, which organizations -

- (a) market the products of the members or shareholders of such cooperative organizations under an obligation

to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;

(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

This exemption shall extend to companies and associations owned or controlled by such cooperative companies and associations and organized for the purpose of financing their operations.'

"This section was first added to the Income War Tax Act because of the decision of the Supreme Court of Canada in the case of Fraser Valley Milk Producers Association v. Minister of National Revenue (1928) Ex. C.R. 215; (1929) S.C.R. 435. The taxpayer was an incorporated company with paid-up share capital. The profits of the concern were divided among producer members in proportion to the value of the produce supplied by each after paying a dividend on the capital stock. It was held that the dividends could not be deducted by the company in arriving at its taxable profits. Accordingly subsection (p) was introduced into section 4 for the purpose of exempting such a concern where the profits (less expenses and reserves) are paid back on a specified basis. It was the intention of the draughtsman of the section to exempt true cooperatives but

to exclude those which operate for the profit of a class although such class may also be contributing producers.

"The application of the Excess Profits Tax Act 1940 to Cooperatives:

"Section 7 of the Excess Profits Tax Act provides in part as follows:

'The following profits shall not be liable to taxation under this Act:

(a) the profits of taxpayers referred to in paragraphs ...(p).... of section 4 of the Income War Tax Act....'

"The Taxation of Manitoba Cooperatives:

"All of the cooperative dairy associations in Manitoba are incorporated under the provisions of the various co-operative associations acts in force in Manitoba from time to time or under the provisions of Part VI of the Manitoba Companies Act 1932 which replaced the previous acts, or Part VII of the Manitoba Companies Act 1940 C. 36.

"There has been a Co-operative Associations Act in Manitoba for a great many years and we would draw the attention of the Commission to these various statutes, and in order to shorten the inquiry would request the Commission to consider the provisions of the following statutes to which some reference will be made later on in this submission:

The Co-operative Associations Act R.S.M. 1902 C.36 (A consolidation of the previous Act.)

The Co-operative Associations Act R.S.M. 1913 C.41 (A consolidation of the previous Act.)

The Co-operative Associations Act Statutes of Manitoba 1916 C. 23 (A new Act).

The Co-operative Associations Act 1924 Consolidated Amendments C. 41 (A new Act.)

The Co-operative Associations Act 1925 C. 8. (A new Act)
Manitoba Companies Act 1932 C. 5, Part VI (replacing the previous Co-operative Associations Act.)

Manitoba Companies Act R.S.M. 1940 C. 36, Part VII
(replacing Part VI of the Companies Act of 1932).

"Attention should first be called to the fact that all the Acts up to 1925 provide only for share capital, but the Act of 1925 provided for either share capital or memberships. Since the passing of the 1925 Act the tendency has been for cooperatives not to have share capital and to provide only for memberships. Some of the cooperatives, however, still have share capital and some that had share capital have cancelled their shares and substituted memberships.

"If a cooperative is incorporated with share capital it may provide either for ordinary shares or for preference and ordinary shares. There is no limit placed upon the amount of share capital or on the value of the shares and the only restriction is that no member should hold more than one-twentieth of the total number of ordinary shares. There is no restriction on the number of preferred shares which a member may hold. Interest not to exceed a maximum rate of 7 per cent may be paid in respect of each class of shares. Provision is made by which the promissory notes of applicants for shares may be taken in full payment for the shares.

"If the cooperative is incorporated without share capital there is no limit upon the membership fee which may be fixed by the directors.

"It will further be observed by referring to Section 139 (1) (d) that any patron not a member may, if the by-laws

of the cooperative are so drawn, be forced into membership by crediting the amount to be distributed to a non-member patron from year to year until the par value of one share of stock or of one membership fee has been accumulated, whereupon the patron shall become a member and entitled to receive a fully paid-up share or membership certificate.

"From this it will be seen that if there was danger of doing the business to a greater extent than 20 per cent with non-members the cooperative could force the non-members into membership and so get over that difficulty and evade the Act.

"Apportionment of Surplus of Cooperatives and Creation of Reserves:

"Part VII of the Manitoba Companies Act by section 139 deals with what is called 'apportionment of surplus'. The section reads as follows:

'139. (1) The directors, after paying expenses and making proper allowance for depreciation, shall apportion the surplus arising from the yearly business of the corporation as follows:

'(a) By setting aside not less than ten per centum of the surplus for a reserve fund and so from year to year until the reserve fund is equal to thirty per centum of the paid-up capital or total membership fees, as the case may be, or such greater amount as the by-laws provide;

'(b) In the case of a corporation having capital, if the by-laws so provide, by paying interest on the paid-up capital at such rate not exceeding seven per cent per annum as the by-laws provide; and

'(c) By dividing the remainder among the members in proportion to the volume of business which they have respectively done with the corporation during the year; or

'(d) If the by-laws of the corporation so provide, by dividing the remainder amongst the members and patrons to each in the proportion that the total volume of such business bears to the volume done by him or so that a patron's portion be not less than fifty per cent of a member's portion, and by crediting the amount to be distributed to each patron to his account, and so from year to year until the par value of one share of stock or one membership fee, as the case may be, has been accumulated, whereupon the patron shall be a member and entitled to receive a fully paid-up share or membership certificate.

'(2) Such a distribution to a non-member credited to his account shall revert to the reserve fund, if after four years, or such other period as the by-laws provide, the amount is less than the par value of one share of stock or in a corporation without stock of one membership fee.

'(3) If the by-laws of the corporation so provide, any proportion of the surplus may, instead of being immediately distributed in cash, be credited to the members entitled thereto and retained and used by the corporation, and the amounts so retained may bear interest at such rate, not exceeding seven per cent per annum, as is provided by the by-laws, and shall with any accrued interest be paid to the members entitled thereto at such times and under such conditions as the by-laws provide.'

"The statute under which the Manitoba Co-operative Act uses the word 'surplus' is shown above. The word 'surplus' first appeared in the Act in 1925 and prior to that the Act used the words 'apportionment of profits', and we submit that these words were more appropriate and that what the cooperatives were then making and have always been making are 'profits' in the ordinary acceptance of the term and that profits as such should be taxed.

"The cooperatives appear not even to like the word 'surplus'. Some of them are now using such terms as 'refunds of excess charges'. This seems to us to be another attempt to get away from the idea of profits.

"We now desire to draw attention to the question of 'reserve funds' and 'reserves'. Section 139 (1) (a) makes it compulsory for the Association in each year to set aside not less than ten per centum of the surplus for a reserve fund until the reserve fund is equal to 30 per cent of the paid-up capital or total membership fees, as the case may be. This, however, is only a minimum and the by-laws of the cooperative may provide for such greater amount as the Association may determine.

"An examination of Part VII indicates clearly that this reserve fund is at no time apportionable to the shareholders or members and it would seem that they would not become entitled to any part of it until the cooperative is dissolved. This leaves a substantial amount of money in this fund which may be built up to any extent possible out of the earnings or operations of the cooperative and in this way everything made by the cooperative could be put into the reserve fund and that fund could be invested or used in any way in the discretion of the directors, and there seems to be no provision for payment of interest on it at any time.

"But there is another reserve provided for by the section. After the reserve fund is set up and interest on the paid-up capital at 7 per cent, if any, is set up, provision is made for dividing the remainder among the members or among the members and patrons according to the provisions of subsections (c) and (d) of section 139 (1). But if the by-laws of the cooperative so provide any proportion of the surplus may, instead of being immediately distributed in cash, be credited to the members entitled thereto and retained and used by the cooperative. There is no limit on the amount which can be set aside in this way and the amounts so set aside need not be paid to the members except at such times and under such conditions as the by-laws may provide. This means that the directors may accumulate this special reserve and retain and use it in any manner they see fit. It will be observed that subsection 3 provides that the amounts so retained may bear interest at such rate not exceeding 7 per cent per annum as is provided in the by-laws, but the effect of the section is that even the interest, if any is to be paid, is not payable except on the same terms and conditions as the balance of the reserve.

"It is, we think, a fair statement, looking at the introductory words of section 139, that the business of the cooperatives is intended to be operated on a yearly basis and if this were true cooperatives handling only the produce of their members and at the end of the year returning to them the surplus or profits after provision for the reserve fund created under 139 (1) (a) and interest payable under 139 (1) (b) the reserve fund could be kept within some reasonable limits.

"When, however, all of the surplus may be put to reserves to be used for the purposes of the corporation it will be seen at once that large amounts can be built up which would be available for the purchase of buildings and equipment of non-cooperative dairy and creamery companies.

"At this stage we should like to refer to section 13 (1) of the Income War Tax Act which provides:

'13. In the case of any corporation which has undivided or undistributed profits, if the Minister is of opinion that the accumulation of such profits is in excess of what is reasonably required for the purposes of the business, he may notify the corporation by registered letter of the amount of such accumulation which he considers excessive, and if such amount is not distributed during the fiscal period of the corporation in which notice is given, the shareholders shall be deemed to have received such amount of profits as a dividend on the last day of the said fiscal period and shall be taxable accordingly.'

"This is important as it indicates the way in which non-cooperative associations are treated. The ordinary company not only has to pay its taxes and its excess profits tax but it must, under section 13, distribute its remaining profits, if any, under the direction of the Minister and these are taxable in the hands of the recipients. The manner in which these reserve funds may be used requires no elaboration because they can be used for the purposes of making profits in any way in which the directors think they can be made.

"We might mention also that it is far from clear as to who would be the beneficiaries of the capital amounts going to set up these 'reserve funds' in the event of distribution or the dissolution of the cooperative. Over a period of

years the membership in the cooperatives is bound to fluctuate, and by reason of death or withdrawal or retirement or departure from the country it is, we think, obvious that in the final analysis on distribution the moneys would not go to the persons who have contributed them and that a great many members would benefit from profits which, on the cooperative basis, they would never be entitled to have.

"There is no way in which we can get access to the financial records of the cooperative dairy and creamery companies. These records, however, are available to your Commission and we request that the cooperatives competing with us be required to place all of their financial statements from the time of their incorporation down to the present time before your Commission so that you may see exactly what the position is.

"The Nature and Powers of Cooperatives:

"Part VII of the Manitoba Companies Act contains section 125 which is apparently intended to define what a cooperative is. It reads as follows:

'125. A corporation hereafter incorporated shall be deemed to be operated on a cooperative basis, if provision is made in its letters patent or by-laws.

'(a) that no member have more than one vote;

'(b) that no member, other than a corporation member, vote by proxy; and

'(c) that the surplus funds arising from the business of the corporation be distributed wholly or in part among the members or amongst members and patrons, in proportion to the volume of business which they have done with or through the corporation.'

"In the earlier Acts to which reference is made various attempts were made to define what cooperatives might do but these attempts have been abandoned.

"Section 138 deals with the powers of cooperatives to enter into contracts and the wording of that section is referred to.

"By section 124 of Part VII, Part II of the Companies Act is made applicable and Part II by section 25 appears to give these cooperatives all the incidental and ancillary powers set out in form D to the Manitoba Companies Act. At one time the cooperative Associations Act provided for distribution of profits to employees but those sections have been dropped from the Act and have not appeared since the passing of the Act of 1925. We refer, for example, to section 25 of the Act of 1924 Consolidated Amendments Chapter 41.

"The Act of 1925 contained a section which is no longer in the Act, section 6, and we draw your attention to the provisions of subsection 3 (a) of section 6 which reads:

'3. (a) In the case of marketing associations, to undertake and carry on all kinds of businesses or operations connected with the marketing, selling, preserving, harvesting, drying, processing, manufacturing, canning, packing, grading, storing, handling, or utilization of any agricultural product, produced or delivered to it by its members, or patrons, or the manufacturing or marketing of the by-products thereof;'

"The absence of such provisions from the present Acts indicate that these powers are no longer possessed by co-operatives and this has special significance when read in conjunction with subsection (a) of section 4 (p) of the

Income War Tax Act already quoted above.

"Whatever the powers of the cooperatives may be under this incorporating Act for taxation purposes the test is whether or not the dairy and creamery cooperatives restrict themselves to the provisions of section 4 (p) (a), in other words whether they confine themselves to marketing the products of their members or shareholders under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality less necessary expenses and reserves.

"Any further operations, we submit, take these cooperatives out of the protection given by 4 (p) (a).

"We are not aware as to whether or not the shareholders and members of the dairy cooperatives are required to enter into any contract such as is provided for by section 127 (e) but we do submit that these cooperatives are not under an obligation to pay to their members or shareholders the proceeds from the sales as is required by section 4 (p) (a). The very fact that the cooperatives may take all the proceeds of the sales to set up the reserve fund and the reserves hereinbefore referred to shows clearly that there is no such obligation.

"Furthermore, we submit that the reserves which are being set up are not 'necessary' reserves for the purpose of such a cooperative within the meaning of 4 (p) (a).

"In effect it is our submission that the dairy cooperatives are liable to tax in the same way that any other corporation is.

"The comparative position of the dairy cooperatives in relation to taxation with their non-cooperative competitors:

"On the assumption that they are exempt under section 4 (p) (a) the dairy cooperatives have not been paying tax

either under the Income War Tax Act or under the Excess Profits Tax Act.

"Therefore, a number of matters of vital importance to their competitors have not yet arisen with reference to the cooperatives. We propose to deal with several of these matters under the appropriate heads.

"Reserves:

"We have already referred to the reserve fund and the other reserves which may be set up and pointed out that this gives the cooperative funds with which to purchase independently owned non-cooperative dairy companies, which by reason of taxation and other elements, which we have already mentioned and which we will discuss, may not be in a position to carry on either now or after the termination of the War. Besides using the reserves for this purpose they may be and are almost certainly being used for other purposes, as for example:

1. Creating new services below cost.
2. Raising prices to the producer above the competitive price.
3. If it suits their purpose, and they might well do so, reducing prices to the consumer.
4. Paying patronage dividends out of reserves when it is considered necessary.

"If one of our companies attempted at the end of any year of operations to make payments equivalent to patronage dividends to its customers the Department would undoubtedly disallow such payments as proper expenses of the business.

"At the close of the War it will be necessary substantially to rebuilt or repair present facilities and replace or restore equipment. The reserves of the cooperatives may be used for such purposes but our companies who have paid out their

earning in taxes and who are not allowed to set up reserves for such purposes will not be in a position to do this work and will, therefore, be prejudiced materially on a competitive basis.

"When we make repairs other than ordinary running repairs of a minor nature or when we purchase new equipment the Income Tax Department requires us to capitalize the amount paid for such repairs and equipment and does not permit the cost thereof to be treated as an expense of the business. When cooperatives make any repairs or buy any new equipment they may treat the amount paid as an expense because their income is said not to be taxable or a capital expenditure as they so desire. We can give one example which has come to our notice of how this has operated in one of the other provinces. It became necessary for one of the independent dairies to change over from oil burning to coal-burning apparatus for the purpose of heating its boilers. This change was effected at a cost of approximately \$14,000. This company was compelled to capitalize this amount with the result that it paid an additional \$14,000 to the Government in excess profits tax. In the same province a cooperative making a similar change expended about \$10,000 and treated this amount paid as an expense but paid nothing in taxation.

"Advertising:

"We are entitled to do legitimate advertising and to pay for it as an expense of doing business but we must keep within the limits set by the Taxation Department at the risk of having any excess disallowed and these limits are very narrow. Paying no taxes the cooperative can spend either out of revenue or capital and in any event without

limit according to their means for all kinds of advertising and particularly for any method which would attract members, or patrons whom they could compel to become members, and in this way again affect our competitive position.

"The Government's Measures against Inflation:

"Taxation is being used by the Government as a means of preventing inflation. So long as no tax is imposed on cooperatives, for the reasons already indicated, there is a serious weakness in the Government's plant.

"Monopoly:

"If the present situation as to taxation on cooperatives continues indefinitely the inevitable result will be that a great majority of business enterprises in Canada will be compelled to become cooperatives to survive. This is the only alternative to this business discontinuing and selling out. Not only will the Government then be forced to obtain its revenues by taxation on all cooperatives but it will also be faced with the problem of dealing with what have become giant monopolies.

"Dissatisfaction and Resentment on the part of non-cooperatives:

"The statement has frequently been made that cooperation is the new way of life, that it is for the good of the whole community and that it should be nation-wide.

"In the first place let us point out that the majority of people in Canada are not cooperatively minded. For over twenty-one years we have had in Western Canada the three great cooperative wheat pools and this Commission can ascertain that the membership in those pools has never reached 50 per cent of grain-growing farmers in Canada. We think that an investigation would show that more than half of the producers of primary products in Canada and certainly more

than half of the consumers are not in favour of cooperation.

"We agree that those who favour cooperation should be permitted to exercise it and to get what proper advantages they can from it but if the test is the good of the whole community those who do not believe in cooperation should be put on the same basis and should not be compelled, as they now are by the present system of taxation, to subsidize the cooperatives with whom they come in daily competition.

"The Briefs hitherto submitted to this Commission:

"We have perused most of the briefs already submitted to this Commission by the independent dairy and creamery companies doing business in other provinces and concur substantially in the views there presented subject to the further development of them in this brief and to the further views which we put forward as to what should be done.

"Conclusion:

"The general legal position as set out in the various decided cases and in the writers of textbooks have already been fully put before this Commission, and we shall briefly sum up our submission.

"1. We submit that as cooperatives and non-cooperatives are corporate bodies meeting in competition in the same field they should all be on the same basis so far as taxation is concerned.

"2. If, as we believe, the dairy cooperatives are taxable, notwithstanding the provisions of section 4 (p) (a), we urge that the Government should take immediate steps to assess them and to collect the taxation.

"3. If, however, section 4 (p) (a) does exempt these cooperatives from taxation we submit that the section should be repealed.

"Your Commission has before you the reports of the various committees and Royal Commissions who have considered this matter in England (and we do not propose to lengthen this submission by quoting from these, but we refer to them) and as a result of the last one The English Finance Act of 1933, 23 and 24 George V Chapter 19 provided by section 31 as follows:

'In the application to any company or society of any provision or rule relating to profits or gains chargeable under Case 1 of Schedule D (which relates to trades) or under Rule 4 of the Rules applicable to Case III of Schedule D (which relates to the profits of certain cattle dealers and milk dealers) any reference to profits or gains shall be deemed to include a reference to a profit or surplus arising from transactions of the company or society with its members which would be included in profits or gains for the purposes of that provision or rule if those transactions were transactions with non-members, and the profit or surplus aforesaid shall be determined for the purposes of that provision or rule on the same principles as those on which profits or gains arising from transactions with non-members would be so determined.'

"While this made a very necessary change in the situation in England we submit that it did not go far enough and that cooperatives and noncooperatives should be put on an equal footing in all respects.

"All of which is respectfully submitted.

Manitoba Creameries supporting brief on cooperative taxation.

Brandon Creamery & Supply Co. Ltd.

Brandon

Carman Creamery

Carman

Central Creameries	Brandon
Central Dairies Limited	Winnipeg
Chatfield Creamery	Chatfield
City Dairy Limited	Winnipeg
Crescent Creamery Company Limited	Portage la
Crescent Creamery Company Limited	Prairie
Crescent Creamery Company Limited	Steinbach
Crescent Creamery Company Limited	Swan River
Crescent Creamery Company Limited	Winnipeg
Elkhorn Creamery	Elkhorn
Eriksdale Creamery	Eriksdale
Fisher Branch Creamery	Fisher Branch
Fraserwood Creamery	Fraserwood
Gilbert Plains Creamery	Gilbert Plains
Inwood Creamery	Inwood
Killarney Creamery	Killarney
Maple Leaf Creamery	Lundar
Modern Dairies Limited	St. Boniface
Moosehorn Creamery	Moosehorn
Morden Creamery	Morden
Neepawa Creamery & Produce Company	Neepawa
Notre Dame Creamery	Notre Dame de
Perfection Creameries Limited	Lourdes
Portage Creamery	Winnipeg
Somerset Creamery	Portage la Prairie
Souris Creamery Association Limited	Somerset
Standard Dairies Limited	Souris
Sterling Creamery Company Limited	Winnipeg
St. Boniface Creamery Limited	Brandon
St. Claude Creamery	St. Boniface
St. Rose Creamery	St. Claude
Teulon Creamery	St. Rose du Lac
Tolstoi Creamery	Teulon
	Tolstoi

Virden Creamery	Virden
Winnipegosis Creamery	Winnipegosis
Beausejour Creamery Co. Limited	Beausejour
Gladstone Creamery	Gladstone
Palm Dairies Limited	Winnipeg
Russell Creamery	Russell
Roblin Creamery	Roblin
Shoal Lake Creamery	Shoal Lake
St. Lazare Creamery	St. Lazare."

.....

THE CHAIRMAN: The brief being matter of argument, no examination is necessary. We thank you, Mr. Dilts.

MR. SCARTH: I presume we shall have the privilege of replying with a similar brief later on if we so decide.

THE CHAIRMAN: Oh yes.

The Commission thereupon adjourned to meet on Thursday, February 8, at 10 a. m.

.....

Winnipeg,
Thursday,
February 8, 1945.

The Commission met at 10.00 a. m., Mr. Justice McDougall presiding.

MR. PARKER: Yesterday the Pool Insurance and Canadian Pool Agencies' briefs were stood aside pending a conference. I have conferred with our auditor and he assures me that there is nothing in the brief at the moment that seems to require further cross-examination by me, but it is understood that some interests might like to ask questions, and I suggest that we finish with that now.

Examination of Robert M. Danser continued:

BY MR. FILLMORE:

Q. How long have you been in the insurance business, Mr. Danser? A. Twenty-six years.

Q. And you were in the business before you started with the Pool Agencies? A. Yes.

Q. And you had several years in the insurance business before that? A. Before what?

Q. Before you started with the Pool? A. Yes.

Q. In what year did you start with the Pool Agencies? A. 1929.

Q. Subsequently to 1929 the stock in Canadian Pool Agencies was transferred from the Canadian Co-operative to the pools in the respective provinces? A. Yes.

Q. In what proportion -- practically split three ways? A. Yes.

Q. Is the stock still held in the same proportions? A. Yes.

Q. Each having practically a one-third holding in the company. Do you know what consideration was paid by the respective pools to the Canadian Co-operatives for these shares? A. No. I have no record of it.

Q. You do not know whether any consideration passed or not? A. No. It was before I was Manager.

Q. This Company is an ordinary joint stock company incorporated under the Dominion Companies Act? A. Yes.

Q. And you have powers to carry on an insurance business and to act as insurance agents? A. Yes.

THE CHAIRMAN: Which one are you speaking of?

MR. FILLMORE: Canadian Pool Agencies Limited.

BY MR. FILLMORE:

Q. Who are the directors of Canadian Pool Agencies Limited? A. The President is Mr. J. H. Wesson, the Vice-President Mr. W. J. Parker, and Mr. Plummer is on the executive. There are six other directors.

Q. They are all members of the respective pools? A. Yes.

Q. Has the Pool Insurance Company the same officers and directors? A. The Pool Insurance Company, yes.

Q. And you are manager of each company? A. Yes.

Q. I suppose you do not know in what proportions the respective pools contributed when the Company was formed in the first place, when the charter was taken out?

A. No, unless it was in equal proportions.

Q. In what business is the Pool Insurance Company, Pool Agencies Limited, engaged? A. They are insurance agents.

Q. You make your moneys through being paid premiums by companies with whom policies are taken out? Take the period prior to 1940 before the incorporation of the Pool Agencies Company; with what companies did you place insurance? I do not mean the names, but was it with companies, ordinary insurance companies? A. Quite a number.

MR. MILLIKEN: Make clear which company you are talking about. I am not sure whether you are talking about the Pool Agencies.

MR. FILLMORE: I am talking about the agencies.

MR. MILLIKEN: Your questions will be about the Pool Agencies until you say otherwise?

MR. FILLMORE: Yes, until I advise you.

BY MR. FILLMORE:

Q. Prior to 1940 you controlled a certain line of insurance, did you not? A. The wheat pools placed all the business with us.

Q. You controlled that line and then you had requests from certain individuals to get insurance policies for them? A. Yes.

Q. So when you placed insurance you got commission from the company which issued the policy? A. We paid the premium less commission.

Q. In effect, you were allowed the usual agent's commission? Your Company, I take it, or you personally were licensed under the Manitoba Insurance Act as insurance agents? A. Yes.

Q. You have always held a certificate under the Act? A. Yes.

Q. I believe you are members of the Winnipeg Insurance Agents Association? A. Yes.

Q. I do not suppose you helped to prepare their brief for this submission? A. No.

Q. The income or earnings, or whatever you like to call it, of your Pool Agencies Limited is derived from premiums which you get from companies with whom insurance was placed? A. Yes.

Q. Your operations, I believe, have been fairly

successful in the past two years? A. I think the directors are quite satisfied.

Q. You had a balance left after deducting your expenses from the commission earnings. Is that right?

A. We have some provisions for certain things.

Q. Pardon me; I did not hear that. A. We have some provisions for unearned commissions.

Q. At the end of each year you have always had a balance left when you deducted your expenses from your commission earnings? A. Yes; we had a saving.

Q. You helped to prepare the directors' report each year? A. Yes.

Q. I suppose you have seen the 1943-44 directors' report to the shareholders? A. Yes.

Q. Have you a copy with you? A. No.

Q. Do you remember whether the report is in part to this effect: "We submit herewith for your approval our sixteenth annual report and financial statements covering the fiscal year ended July 31, 1944, and you will notice that once again a favourable surplus has been produced. That surplus for the year amounts to \$103,020.80 as compared with \$102,297.91 since last year." Is that correct? A. Yes, I believe it is.

Q. Your agency has handled twelve types of insurance? A. Yes.

Q. And some of these types would be policies issued to individuals only, such as sickness insurance for example? A. Yes.

THE CHAIRMAN: What was that question?

MR. FILLMORE: I said, my Lord, that some of these types of insurance would be for policies issued to individuals only, such as sickness; and the greater part of your income

would be derived from fire insurance, fidelity bonds, lake marine insurance?

THE WITNESS: You have it in the right order.

BY MR. FILLMORE:

Q. Naturally; I am reading from your report, if I read it correctly; and other kinds of policies which you obtain are liability, automobile, robbery, burglary, floater, windstorms, steam boiler, riot and civil commotion and war risks? A. That is right.

Q. Was your company ever in the loaning business? Did you ever loan money to people? A. We loaned some of our patrons' savings to the subsidiary.

Q. Were you in the automobile finance business? A. We financed some cars.

Q. You have investments in Dominion Government bonds? A. Yes.

Q. Referring to Dominion Government bonds, I note that the directors' report states, with reference to the amount of \$80,000: "While there has been some fluctuation in the value of these bonds, it is our belief that they offer the best medium of obtaining an earning without undue risk of loss." You are not worried about Dominion Government bonds, are you? I just do not understand the expression, "an earning without undue risk of loss." You do not doubt the stability of Dominion Government bonds? A. No; we might have some other type of investment.

Q. You are just contrasting that with some other type of investment? A. Yes.

Q. Then you refer to the item of patrons' equity. The item of \$103,020.80 represents surplus earnings for the year ended July 31, 1944. Why do you say surplus earnings instead of net earnings? A. It is just our method of

setting out the statement.

Q. You do not see any difference between surplus earnings and net earnings? A. It is what is left over after paying expenses.

Q. For the year ended July 31, 1944, after deducting your expenses from the earnings, the Company had left \$103,000? A. I believe that is correct.

Q. And that represented your net earnings for that fiscal year, did it not? A. What we call savings.

Q. You say it is what you call savings. Do you think that the name makes any difference? Does it make any difference whether you call it savings or surplus or income? Does that change the character of the transaction?

A. It depends on the purpose of the organization.

Q. You have an ordinary joint stock company, haven't you? A. Yes.

Q. And the shares are held in equal proportions by three different parties? A. Yes.

Q. You understand that when an ordinary company has a surplus and wants to pay dividends it must distribute the dividends equally among the shareholders? A. That is the usual joint stock company.

Q. And this is an ordinary joint stock company, is it not? A. We have a by-law.

Q. You have a by-law, and you say that by reason of your having passed a by-law you are able to change the whole situation and thereby convert a taxable earning into what you call a tax-exempt surplus or saving? A. We had legal advice.

Q. Has your Company got anything on record, any writing, providing, for the distribution of this surplus among the patrons, except the company's own by-law? A. No, I do

not think so.

Q. By the way, the policies which you obtained were policies on standard form. Were all the fire insurance policies up to 1940 on the standard forms? A. Yes.

Q. After 1940 the Pool Insurance Company was formed? A. 1939.

Q. The last Act is Chapter 50 of the 1940 Statutes of Canada. It is a matter of record. After that company commenced operations, that is, the Pool Insurance Company, did you start placing insurance with that company?

A. The business went through Canadian Pool Agencies to the company.

Q. You gave the Pool Insurance Company all the business you could, I take it? A. That is right.

Q. And they allowed you a commission the same as the other companies did? A. Yes.

Q. Did they issue policies on the same standard forms on which you obtained policies from the other companies?

A. Yes.

Q. I notice in your 1943-44 directors' report you have a heading, "Profit and Loss Account". Did you have a profit and loss account? A. The word creeps in once in a while.

Q. I beg your pardon? A. I say the word profit creeps in once in a while.

Q. I take it it is purely by inadvertence that you use the word profit in the report. It should have been "Savings and Loss Account", should it not? That would bring it more into line with your ideas? A. That is right.

Q. Perhaps next year you will amend that and call it Savings and Loss Account? A. Thanks for bringing it to my attention.

Q. However, what the directors have referred to as profit and loss account is by your auditors called a statement of income and expenditure? A. Yes.

Q. And that shows income from commissions, interest on exchange, interest on investments and miscellaneous? A. Yes.

Q. And after deducting all your expenses for the year you had a balance left of over \$103,000? A. That is right.

Q. You are the Manager of the Pool Insurance Company? A. Yes.

Q. Have they offices in the same building? A. The same.

Q. Have you a revolving door between the two offices? A. No. We don't need a revolving door.

Q. Does the Manager of the Pool Agencies Limited sit in the same chair as the Manager of the Pool Insurance Company? A. Yes; it is quite a substantial chair.

THE CHAIRMAN: Is it a revolving chair?

THE WITNESS: It is generally called a swivel chair.

BY MR. FILLMORE:

Q. That is another point. When the Manager of the Pool Insurance Company wants to make a bargain with the Manager of Pool Agencies, he does not have far to go? A. That is true.

Q. The Pool Insurance Company has an authorized capital of \$500,000? A. Yes.

Q. And \$250,000 paid up? A. No, subscribed.

Q. How much paid up? A. \$185,000.

Q. Have you got the necessary deposits with the Dominion Government? A. Yes.

Q. Do you remember what they amount to? A. Fifty-five thousand.

Q. The stock in the Pool Insurance Company was originally held equally by the three western pools, was it not? A. Yes, fairly equally but for the odd share.

Q. And I take it that each paid in an equal amount for their shares? A. The same price per share.

Q. You say there has been a re-arrangement; the shares have been rearranged between the three. I have forgotten the amount of present holdings as between the three. Is it in your brief? A. No.

Q. Do you know how the shares are held at the present time? A. On a percentage basis.

Q. But how many shares are held? I think you gave that the other day, but I have forgotten the amount.

A. The value or the number of shares?

Q. The number of shares held by each pool.

A. Manitoba Pool 500, Saskatchewan Pool 1,250, Alberta Pool 750.

Q. I don't suppose you know what was paid by the Saskatchewan and the Manitoba for the transfer of shares?

A. No, but I think it would be the same values.

Q. You would assume they would pay at least what the shares cost? A. Yes.

Q. Coming back to the Pool Agencies, at the shareholders' meeting do you vote on the principle of one share one vote, that is, the shareholders' voting power? A. No. It is a private joint stock company.

Q. The shareholders vote, then, in proportion to the number of shares held by each? A. I believe that is right.

Q. Is that the case with the Pool Insurance Company?

A. No.

Q. They do not have one share one vote in the Pool Insurance Company? A. No; one member one vote.

Q. Where did you get your members in the Pool Insurance Company? You have shareholders? A. Shareholder-members.

Q. Your Statute provides for shareholders. You cannot take in members; you can only have shareholder-members, you say. I am asking you if you know what right you have to call a shareholder a member. A. We call them shareholder-members.

Q. For what line of insurance does the Pool Insurance Company hold a Dominion licence? A. We have power to write all classes except life.

Q. You have power to write a great many different lines, but for what lines do you hold a Dominion licence? A. Fire insurance.

Q. Fire insurance only; and I take it that you place fire insurance mainly with the Pool Insurance Company.

A. Not all of it.

Q. Part of it then. A. Yes.

Q. Does the Pool Insurance Company reinsure?

A. Yes.

Q. Is this correct, reading from the directors' report: "In the past, the policy of the Company has been to reinsure 90 per cent of the liability on country elevators' grain and office furniture. However, in view of the very good loss experience, the portion reinsured was reduced to 85 per cent as of August 1, 1943." Is that correct?

A. Yes.

Q. In the fiscal year ended December 31, 1943, you had

a favourable loss experience? A. What year?

Q. The year ended December 31, 1943; the report I have says you had a favourable loss experience.

A. 1943.

Q. And you had a surplus of \$234,800 as compared with \$149,356 the previous year? A. That is correct also.

Q. So that the Pool Insurance Company reinsures its fire business to the extent of 85 per cent? A. Not all of it; we have some lines that we do not reinsure.

Q. You have some lines that you do not reinsure but the Pool Insurance Company does not issue any policies except fire policies? A. Yes; that is so.

Q. And they are on the usual standard form, the same as you get from other companies? A. Well, we mention that the holder participates in the dividend.

Q. Have you one of the policies? A. No.

Q. Have you the wording of that clause in the policy? Have you got that wording here? A. Yes.

Q. Would you mind letting me have it? It reads: "The holder of this policy is entitled to participate in such savings of the company as the Board of Directors may determine to distribute." You say that is on each fire policy? A. We type it on.

Q. Aside from the policies which your Company issues with that wording, did you ever see a participating policy on fire insurance? A. I do not recollect.

Q. You have been in the fire insurance business for twenty odd years. Did you ever in your entire experience see what is referred to in the insurance business as a participating policy? A. Yes, I have, but I cannot remember the details.

Q. Can you name a company? Is there any company now doing business which issues participating policies? I am referring to the joint stock, not the mutual, of course. A. A joint stock company?

Q. Yes. Is there any ordinary insurance company issuing what is known as a participating policy? A. No.

Q. Do you know of any? A. A reciprocal?

Q. No. I am pointing out to you that there are very few if any fire insurance policies issued which are known as participating policies. Isn't that correct? A. Yes.

Q. Do you know what a participating policy is? Will you give me a definition? A. The holder participates in the savings, the surplus.

Q. Surplus of what? A. The operations of the company for the year.

Q. Now let me call this to your attention: Is not a participating policy in which the policyholder may get back a proportion of the premium if there is a favourable loss experience, or, to put it another way, if the cost of the policy is less than the amount of the premium?

A. I always understood that it meant participating in the earnings of the Company.

Q. The return which the policy holder gets, no matter how it is worked out, is only a part of that very premium which he paid. Isn't that it? A. You mean he could not get more than he paid?

Q. He could only get back part of the premium which he paid? A. Yes.

Q. Isn't that it? Now if you do not know what a participating policy is, if you have never seen one and you do not know the wording of the ordinary policy, I will not keep asking you what it is; we can find out in another way.

A. I am not familiar with it.

Q. You are not sufficiently familiar with that kind of insurance to say what the ordinary wording on a participating policy is. Is that correct?

A. We believe our policies are participating.

Q. In the manner in which you have stated there. You say that the policyholder may participate to whatever extent the directors may decide? A. That is provided for in our by-laws.

Q. I know, but I am talking about the wording there that you gave me. That is entirely a matter of discretion with the directors? A. The directors have the say, yes.

MR. MILLIKEN: That is in accordance with Section 8 of the Act, which says that it is within the discretion of the directors.

BY MR. FILLMORE:

Q. That is what I am coming to. You made money on your reinsurance business, did you not? A. We paid premiums less commission.

Q. The premiums which you collected from the policyholders were greater than the amount you paid to get those risks reinsured? A. Yes.

Q. And then you got earnings from other sources. You got the premiums on the policies which you carried yourself? A. Yes.

Q. And you did not reinsure all the business, so you got premiums on the 15 per cent you retained? A. Net earnings.

Q. And you had a total revenue of around \$273,524? A. On what?

Q. For the year ended December 31, 1943? A. I presume that is correct.

Q. And after deducting expenses you had a surplus or income or profit or saving of \$234,800? A. Yes.

Q. And that became available for the shareholders, I take it? A. The shareholder-members.

Q. Shareholder-members? A. Yes.

Q. That amount was allocated? A. The end of the year.

Q. Yes. It was allocated as follows: Shareholders' dividend, 1.75; Patrons' dividend, \$234,798. Is that 1.75 the taxable portion? Is that the income of the Company on which they are subject to income tax? A. The Pool Insurance Company is not subject to income tax.

Q. Why do you say that? It is an ordinary joint stock company; it makes earnings; why is it not subject to income tax? A. Because we haven't got a profit.

Q. No profit? You have savings. Have you a surplus? A. We have a surplus.

Q. There is no use quarrelling over words. After doing the business of the year you find that you have more money on hand at the end of the year than you had at the beginning of the year. Can we agree on that? A. We have been working along those lines so far.

Q. And when you come to allocate it, out of that \$230,000 odd which you had left over you allocated shareholders' dividend 1.75 and patrons' dividend \$234,000, and I am asking you if that 1.75 is subject to income tax of 40 per cent. Would you not pay at least 40 per cent of that for income tax? A. We file our reports with the Income Tax Branch and have not been assessed so we figure we are not assessable.

Q. Have you figured income tax on that 1.75? Did your

Company have earnings in the fiscal year ended December 31 1943? A. You can call them earnings, I guess.

Q. I beg your pardon? I cannot hear you.

A. We have income.

Q. I am asking you this question: Did the Company have earnings? Say yes or no if you can. A. No; we consider it savings.

Q. You had no earnings. Did you have earnings available for the payment of dividends, outside of the 1.75?

A. The dividends were paid out of the savings.

Q. So you had no earnings available for the payment of dividends? A. No; they were all allocated.

Q. And had you issued participating policies other than the policies which had attached the wording which you gave me there? A. No.

Q. "The holder of this policy is entitled to participate in such savings of the company as the Board of Directors may determine to distribute." Well, at the end of 1943 did the Board of Directors determine to distribute among the shareholders of the Company the entire savings, as you call them, the entire net savings? A. At the annual meeting.

Q. They determined to distribute among the shareholders the entire savings for that year? A. To the shareholders.

Q. They have been doing that every year? A. Yes.

Q. For the year ended December 31, 1944, were your savings more than they were in 1943? A. We have not completed our statement.

Q. But that has been your settled policy, has it? A. Yes.

Q. So that this wording was attached to every policy,

and you may at the end of each year distribute among the shareholders the entire earnings or savings, the entire net earnings or savings of the Company; and by reason of having done that you are not subject to the payment of income tax. Is that your contention? A. The fact that we had no profit.

Q. Section 8 of the incorporating Act provides that the directors may from time to time, if authorized by by-law approved by the shareholders, out of the earnings of the Company available for payment of dividends, and after allowing for non-cumulative dividends to the shareholders of the Company of not more than 5 per cent per annum of the amount of the shares held by them, distribute equitably to the holders of participating policies issued by the Company such sums as in the judgment of the directors are proper and justifiable. You did not have any money available; any earnings available for payment of dividends?

A. No; for the payment of patronage dividends.

Q. Just patronage dividends only. You did not have any participating policies, as that term is used in the insurance business? A. Well, we consider our policies participating.

Q. Just by reason of that discretionary wording?

A. Well, --

Q. Just a minute. Did you give any other policyholder a policy with that wording attached? A. No.

Q. You just gave it to those policyholders who were also shareholders? A. There was one company we issued a policy to, the Bird Construction Company, jointly with the Manitoba Pool Elevators.

Q. But, Mr. Danser, the refund had no relation to any particular policy. What you divided up among the share-

holder members was the entire net earnings of the Company or the entire net savings? A. Yes.

Q. It had no relation to the premium paid on any particular policy. The division had no relation to the premium paid on any particular policy? A. No.

Q. And the result is that by reason of that discretionary wording which you put on those policies you have not been called upon to pay, or you have not paid, any income tax or excess profits tax? A. We pay out our earnings to our members.

Q. You know that if these were profits instead of savings you would have to pay 40 per cent to start with and then 100 per cent excess profits over and above the standard earnings? A. Yes.

Q. That might be up to 60, 70 or 80 per cent of those earnings if you were an ordinary company. Is that correct? A. I presume so.

Q. The Pool Insurance Company issues policies to no one except the three grain pools, except to those who are shareholders? A. We issued one jointly in the case of the Bird Construction Company.

Q. That was in connection with a contract they had on hand? A. For one of the pools.

Q. Aside from that, have you issued any to anyone besides shareholders? A. No.

BY MR. MILLIKEN:

Q. When you said to Mr. Fillmore that you did not allot the savings, or whatever you agree between you to call it -- when you did not allot it on the basis of the premium, it is a fact that you allotted it on the basis of premium earned from the entire business from each policyholder for the twelve months? A. Yes.

Q. The entire business which each policyholder has done with you for the twelve months? A. Yes.

Q. Mr. Fillmore asked you if you did it on individual premiums but it is done on the aggregate? A. Yes, the total from the members.

BY MR. VAUGHAN:

Q. You have a Dominion charter and I presume you operate under the supervision of Mr. Finlayson, the Superintendent of Insurance? A. Yes.

Q. He supervises the Company? A. Yes.

Q. And you make the regular required returns?
A. Yes, according to the Insurance Act.

Q. A big part of your revenue comes from reinsurance?
A. Yes.

Q. You charge the elevators the regular rate, the prevailing rate, and you get a rebate? A. We pay the insurance premiums less the commission.

Q. And that commission in turn is passed on to the elevator company? A. Yes.

Q. Isn't that exactly the same as if the insurance companies allowed the elevator company a direct reduction in their insurance rate? You rebate part of the premium with the commission. It is really insurance at a lower rate? A. If the rate was low enough, yes.

Q. Are not these rates fixed? Are they not standard rates? A. They are fixed.

Q. It is equivalent to giving a reduction in the rate?
A. When the business warrants a reduction we would apply to the Association.

Q. There is a certain part of the commission allowed to the person who insures, which is equivalent to taking insurance at a reduced rate? A. Yes.

Q. I thought all insurance was standardized so far as the various insurance companies are concerned.

A. Belonging to one association.

Q. And they are supposed to be adhered to? A. Yes.

Q. Do you consider that this is such an arrangement?

A. We don't reduce the rates.

Q. In effect you get a rebate on the premium?

A. No. We figure that there is an overpayment.

Q. It is the regular rate? A. It is the regular rate but there is a margin. We figure they overpaid us.

Q. Are those rates fixed in some way so that they cannot be broken as between the different parties and the Company? A. They are fixed by the associations, yes.

Q. But these particular companies break the rules by giving a rebate in the form of commission? A. Which companies?

Q. The insurance companies that you reinsure with.

A. They give us reinsurance commission.

Q. And you pass that on to the elevator companies?

A. Yes; not that in itself, but we have a percentage of our own business.

Q. Eight per cent on reinsurance? A. Yes.

Q. You pass that back to the elevator companies?

A. Together with the other earnings or savings.

Q. Is not that in effect a reduced rate? It goes through that process, but that is the effect of it?

A. When you place business with a reinsuring company the company that places the business had to do all the work in connection with it and therefore they are willing to give you a fairly good commission. They give you a good discount on the rates.

Q. According to the statement, it is very small. That

is the point. I understood these rates were fixed by the association and were not supposed to be broken, and in this case, it seems to me, the rates are broken by reason of the refund in the form of commission. A. The rates are not broken so far as the reinsurance company is concerned. They charge the same rate but give us the commission.

Q. But you are agent for the other people and it is equivalent to the other people getting a reduction?

A. Yes.

BY MR. MANN:

Q. The Pool Insurance Company is a member of the Western Insurance Association? A. Yes.

Q. And that is a recognized body within its jurisdiction? A. Yes.

Q. Your Company is a member of it? A. Yes.

Q. Has your Company or any of its officials ever sat upon the council of the western association?

A. No. I have been on a committee. I was never a member attending a meeting.

Q. What committee was that? A. I could not say now.

Q. Were you ever on the rate committee? A. No.

Q. You never took part in that committee?

A. No.

Q. You do know, however, that that is the body that fixes the rates -- the western association, of which your Company is a member? A. Yes.

Q. Your agency company is a member of that body?

A. Yes, the Western Underwriters Association.

Q. In placing reinsurance -- I am speaking of the

Company -- do you do so generally with companies who are members of the Association, or do you do it at Lloyds?

A. We do some at Lloyds.

Q. But you place a substantial amount with the standard board companies? A. Yes.

Q. At standard rates fixed by the western association? A. Yes.

BY MR. FILLMORE:

Q. I notice that your income for the year ended December 31, 1943, for interest earned was \$7,633, and in answer to what Mr. Vaughan said to you, I take it you would not rebate the premium. You have never done anything like that, have you? You have never rebated premiums as such? A. No. We paid to shareholder-members.

BY MR. MILLIKEN:

Q. I understand there is one rate for board companies, and non-board companies have another rate? A. As regards the non-board companies, each company usually has its own ideas of what the rates should be.

Q. Outside the board companies, each company sets its own rates? A. Yes.

BY MR. VAUGHAN:

Q. There might be rates fixed by the board companies and by the non-board companies, and those rates, by agreement between the board companies and the non-board companies, are supposed to be adhered to. There are agreements to that effect? A. Is there such an agreement with non-board companies?

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R. M. McGREGOR,

Manitoba Provincial Board
of the Retail Merchants'
Association of Canada, Inc.,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. What position, if any, do you hold in the Retail Merchants' Association of Canada, Inc.? A. Of Winnipeg, sir?

Q. On the brief you speak of the "Manitoba Provincial Board of the Retail Merchants' Association of Canada, Inc." A. I am an employee of the Winnipeg Branch of the Retail Merchants' Association of Canada Incorporated.

Q. In what capacity are you employed? A. I am in charge of investigation and that sort of thing.

Q. Have they a Secretary or a President for the Manitoba Branch? A. They have.

Q. You are not either? A. No sir.

Q. You are an investigator? A. That is a broad term.

Q. I want to find out in what capacity you serve. You explain it to the Commission. You are not the President and you are not the office boy; you are in between? A. That is right.

Q. Tell us what your duties are. A. They are of a general nature. It might be said that if any matters come up and any of our representatives wish to have them handled for our members, in the way of Wartime Prices and Trade Board orders, I handle them. We issue a monthly abbreviation of the Wartime Prices' orders and keep it up to date with supplements. That contains the orders and matters of that nature.

THE CHAIRMAN: Are you familiar with the affairs of this Association?

THE WITNESS: I am, sir.

BY MR. PARKER:

Q. Did you prepare this brief? A. I collaborated in its preparation.

Q. Who prepared it? A. Mr. Willard, the Provincial Manager, and I consulted Counsel on certain matters.

Q. And between the three of you it was prepared? A. Yes.

Q. Was it submitted to any of your members before it was brought here and filed? A. Mr. Willard submitted a summary of it to our Board of Directors totalling eighteen.

Q. At a full meeting or by circular? A. By circular, but he showed it to the President in person. There are eighteen directors and executive.

Q. And they have approved in substance of this brief? A. They have.

Q. How did they approve of it? A. I should not make that all-inclusive, but the ones we have heard from have approved of it. There are five in the city and one in the country who wrote in mentioning it, and our bulletin to the others was couched in such a way that if we did not hear from them we were to take their approval for granted.

Q. That is the circular to the Board or to the entire membership? A. To the Board.

Q. Have you a copy of that? A. I have not.

Q. Will you read the brief. A. May I, before reading the brief, make the following statement by way of preface to the reading of the submission. First, we realize that some of the points taken have already been dealt with

much more fully and ably by representatives of other tax-paying groups. In these cases, we know that it is very improbable that we can add anything new to what has already been put forward, but it may be taken that, in stating them once more, we are endorsing the position already taken. Next, we shall make some comments regarding consumer cooperatives and their patrons. We should like it to be very clear that, in making these comments, no animosity or antagonism is felt -- no acrimony intended. They are, we consider, plain facts, and are put down here for the purpose of enabling us progressively to arrive at our final conclusions. Then, we might say that our propositions are couched in quite terse terms. Elaboration may sometimes be indicated, or substantiation required. But in the interests of clarity we should prefer to go through the brief in its present form, and then endeavour to provide supporting material afterward.

The brief reads as follows:

"Brief submitted on behalf of persons in the province of Manitoba operating business establishments for the sale of merchandise at retail, as corporations, partnerships or proprietorships.

"This brief is submitted on behalf of, and with the authority of the Executive of the Manitoba Branch of the Retail Merchants' Association of Canada, Incorporated under Special Act of the Dominion Parliament, being 9 and 10 Edward VII Chapter 156 (Assented to May 4, 1910).

"The Association is a service organization operated through provincial boards set up under its constitution. The membership of this Branch consists of hundreds of retail

merchants in more than one hundred and seventy points in all sections of the province, and a large membership in the city of Winnipeg.

"All of these members, as well as many other merchants (a total of almost 2,000)....."

In this paragraph we find, on making a check, that the figure is around 1,800. I would therefore substitute 1,800 for 2,000 as appears in the brackets: Continuing:

".....have, by circularization, been apprised of the substance of the brief here presented. Hundreds of signed replies have been received, supporting the position taken, and as not one dissenting comment has been made, it may safely be said that all those circularized subscribe to our action."

I would substitute the word "most" for the word "all" in that last line. Continuing:

"We are quite cognizant of the fact that many other types of taxpayers apart from retail merchants, are affected by the matter under review as by all laws governing tax rates. We are not and do not wish to appear class-minded, but rather, while recognizing the broad implications of the question, are confining our arguments to the ways in which it affects those whom we represent, the independently operating retail merchants.

"It follows, therefore, that we must deal with only one phase of cooperative activity -- the consumer cooperative.

"Recognizing that not only the members of the Commission, but all others in official capacities who may follow our comments are in possession of all such facts, we shall make no reference to Acts of Parliament, etc. which bear on the matter; to the position of cooperatives in other lands, or to the growth of the movement in Canada. We propose,

rather, to deal in a generalized way with the principle involved.

"To that end, we respectfully submit the following:

"1. A Consumer Cooperative - "

We wish to strike out subsection (a). That deals with the matter from a different angle from which we are approaching it and so I would modify that section. We go on to (b):

"(b) is not a philanthropic or charitable institution. It is a business institution.

"(c) does not necessarily fill a need. While there may be, no doubt are, instances to the contrary, generally it will be found to have commenced operations in a community already adequately served by independents who have pioneered the field.

"(d) is not exploring an undeveloped field, or carrying on experimentation in an undeveloped industry;

"(e) does not necessarily function more efficiently, or render better service than a similar business privately owned;

"(f) is not, in the main, according to our findings, the centre of any general activity for social uplift, community betterment, etc. There are always exceptions, of course, but reports received by us indicate that its function is confined largely to the sale of merchandise;

"(g) is, in the final analysis, nothing more or less than a retail establishment operated for the gain or profit of its owner-patrons. Whether that gain or profit takes the form of lower costs on goods bought by those owner-patrons, or of patronage dividends, does not alter the fact, nor does the circumstances that there may be fifty joint owners instead of one, two or three.

"Such being, as we contend, the case, it follows that any moneys accruing to such an establishment from the sale of merchandise become, in fact, the profits of a business.

"2. An Owner-Patron of a Consumer Cooperative --

"(a) is not necessarily in the low income class...."

This would be clearer if we said, in paragraph (a) "is not necessarily a person", so that it would read:

"(a) is not necessarily a person in the low income class who might be regarded as a fit subject for financial assistance from the State. On the contrary, he may be, and often is, a person of some means;

"(b) is not, in this case at any rate, a philanthropist; is not prompted to patronize the cooperative by charitable impulses;

"(c) is, it can be contended from the foregoing, nothing more or less than a partner -- or shareholder, shall we say -- in a retail business. If such business accumulates a surplus from any one year's operations, such surplus is, in fact, the profit of a business.

"3. The Independent Retail Store --

"(a) is, and has for generations been one of the bulwarks of the Nation; Wherever the race has fared, the corner store has gone with it. Not for nothing has the race been called a 'nation of shopkeepers':

"(b) is an institution. On our farflung frontiers it has been, and is even today in many rural areas, the normal community centre -- the hub around which the community revolves.

"4. The Independent Retailer --

"(a) is a pioneer. In most cases he, or his immediate forebears have come to the frontier with the early settlers, and have made a worthwhile contribution to the development of

the country. He has endured the hardships of primitive living conditions, and known privation -- even want, both in the early years and later in seasons of poor crop yields;

"(b) is a source of credit. In many cases has financed his customers to the point of jeopardizing his own standing, even when banks declined the risk, and much of his rightful profit may still lie in never-to-be collected accounts.

"(c) is an expert; he knows his job, has spent his lifetime learning it, and can justify his existence in any community;

"(d) is a good and valuable citizen. He interests himself in, and informs himself on community and national affairs, and takes an active, often a leading part in their advancement;

"(e) is a taxpayer; a source of revenue to the coffers of all tax-levying bodies, from the Federal Government down to his own city, town, village or municipality;

"(f) is not a plutocrat. His income from his business is moderate, perhaps less than moderate in periods of business depression or poor crop yields;

"(g) is not a dishonest person, or a profiteer. Even before price ceilings were known, it could be found that the profits he took were nominal;

"(h) does not try to avoid carrying his share of the tax burden under the guise of a 'movement'.

"Here, then, we have a picture of these two types of businesses, and of the people who operate them.

"The consumer cooperative does not pay income taxes or excess profit taxes. The privately-owned business does.

"In theory, this should wreak no hardship on the independent operator, because the cooperative is assumed at the close of each business year, to distribute its profits, surplus, if you will, on a pro-rata basis among its patrons. Hence, it would have no profits, and it may safely be said that the average independent merchant would be prepared to so conduct his business that it would yield him as personal income after all expenses (including dividends to shareholders, if the business is incorporated), a like amount to that paid the manager of the consumer cooperative as salary, and so he could be at all times competitive.

"In practice, however, this does not obtain, for the common custom of consumer cooperatives is to retain, sometimes for a period of years, all or a great part of the surpluses realized. These surpluses can, and do increase very rapidly, and the total amount is available for various expansion purposes, the enlarging or modernizing of premises, the adding of new lines or services, and so on."

This is put in for the sake of comparison between an incorporated business and a simple proprietorship. We state briefly what an incorporated business pays in the form of taxes. Continuing:

"The privately-owned business, if incorporated, pays taxes on 30 per cent of all profits and a further 70 per cent on all surplus over standard profit. In simpler words: 30 per cent of the standard profit and 100 per cent of all surplus over the standard profit, or 40 per cent of the total profit, whichever is the greater.

"True, many of the people we represent do not operate incorporated businesses, and therefore, are not subject to the tax schedules affecting corporations. Here, however,

we find that the case is analogous, because of the personal income tax levied on the owner of a business.

"May we submit some examples:

"On the one hand we shall place a consumer cooperative with a salaried manager; on the other, a single proprietorship, the proprietor acting as manager. For the purposes of striking an average, let us say that each is a married person with two dependents. Let us further assume that the proprietor is content with a personal income identical to that paid as salary to the manager of the consumer cooperative. In all cases we have based our figures on the earnings of the businesses after all other expenses are paid, but before the salaries of the respective managers are paid. In all cases we assume the surplus of the cooperative to be held in reserve."

I may say that in all cases we have based our figures on the table of taxation deductions effective March 31, 1943. We find that after paying income tax on total profit the independent has a much smaller amount left for expansion purposes than has the cooperative, and it is worthy of note that in all these cases if the cooperative had been subject to the first income and excess profits taxes, then the positions would be quite comparable, the cooperative still having a slight edge.

Continuing:

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EXAMPLE 1.Cooperative:

Earnings before manager's salary	\$4,000
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Manager's salary	\$2,000
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Income tax paid by manager	<u>100</u>
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Net income of manager	\$1,900
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Surplus in hands of cooperative for expansion purposes	\$2,000
--	---------

Proprietorship:

Earnings before manager's salary	\$4,000
----------------------------------	---------

Proprietor-manager pays income tax on this, which amounts to	\$634
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Allow as personal income the net income of co-operative manager	<u>1,900</u>
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Surplus left for expansion purposes (\$4,000 less \$634 less \$1,900)	<u>\$1,466</u>
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A difference in available surplus of	<u>\$ 534</u>
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EXAMPLE 2.Cooperative:

Earnings before manager's salary	\$5,000
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Manager's salary	\$2,400
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Income tax paid by manager	<u>185</u>
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Net income of manager	\$2,215
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Surplus in hands of co-operative for expansion purposes	\$2,600
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Proprietorship:

Earnings before manager's salary	\$5,000
----------------------------------	---------

Proprietor-manager pays income tax on this, which amounts to	\$1,080
--	---------

Allow as personal income the net income of co-operative manager	<u>2,215</u>
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(continued)

Example 2.

Proprietorship (continued)

(Carried Forward)

\$2,600

Surplus left for expansion
purposes (\$5,000 less 2,215 less
\$1,080)

1,705

A difference in available surplus of \$ 895

Example 3.

Cooperative:

Earnings before manager's
salary

\$6,000

Manager's salary \$3,000

Income tax paid by
manager 317

Net income of manager 2,683

Surplus in hands of co-
operative for expansion
purposes

\$3,000

Proprietorship:

Earnings before manager's
salary

\$6,000

Excess profit tax on over
\$5,000 - 15 per cent of
\$1,000 150

Income tax on \$5,850 1,420

Allow as personal income
the net income of co-
operative manager 2,683

Surplus left for expansion
purposes (\$6,000 less \$150
less \$1,420 less \$2,683).....

1,747

A difference in available surplus of \$ 1,253

"Thus we find that, whether the privately-owned business is a corporation or a proprietorship, the net surplus is much less than that available to the cooperative, if the latter retains its surplus as a reserve. Moreover, the burden of providing the revenue the GOVERNMENT FAILS to collect from cooperatives falls on all other taxpayers,

INCLUDING the independent retailer, so that the latter must cope with an abnormally high expense while competing with a concern enjoying an abnormally low expense.

"The cooperative, therefore, has available for purposes of expansion; adding new lines and services; enlarging or modernizing premises, etc., a much greater amount of money than has the privately-owned business, and the employment of this money in such ways must result in more and still more customers being attracted to the cooperative from the privately-owned retail store.

"The foregoing are, we submit, indisputable facts. If we accept them as such, we cannot easily escape the following conclusions:

"1. (a) . That the principle of exempting consumer cooperatives from income taxes and excess profits taxes is based on the assumption that consumer cooperative members and patrons are in a separate category to others engaged in retail business; perhaps that they are espousing a cause, or are struggling groups opposing great vested interests, and are, therefore, entitled to special treatment;

(b) That this assumption is misconceived.

"2. That the independent retailer, in view of his record, and status, is entitled, not to patronage, but to a fair and equal chance to survive, and that under present laws he is not being accorded that chance.

"Admitting the above, we must then reach the further conclusion that, from the standpoint of the independent retailer, the present law is:

DISCRIMINATORY, INEQUITABLE, AND IN
CONTRADICTION TO OUR NATIONAL CONCEPT
OF DEMOCRATIC JUSTICE AND IMPARTIAL
GOVERNMENT. *%:

"Finally, from a national standpoint, this law is:

"(a) Unwise, because it tends to arouse suspicion of government patronage, and creates discontent on the part of a large group of worthy citizens -- the independent retailers;

"(b) Economically unsound because: it threatens the existence of a long-standing and valuable institution -- the independent retail store, and the welfare and livelihood of all those who operate such stores; it curbs initiative by discouraging enterprising youth from entering the retail field; it threatens to curtail employment, by over-centralization of retail business and, as well, by forcing remaining independents to shave expenses (which include employing a minimum staff) in order to meet co-operative competition;

"(c) Short-sighted, because it can quite conceivably become a vicious cycle, when all retail business will be cooperative, and when the taxes now paid by independent retailers must be drawn from other sources which would, of course, include the cooperative stores and their owner-patrons.

"It is in no wise the aim or wish of our members to impose any undue hardship on consumer cooperatives; to handicap them in any way; curtail their activities or retard their expansion; provided that they be first made subject to the same rates of taxation as those applying to other businesses.

WE SUBMIT THAT THEY SHOULD BE MADE SO
SUBJECT, AND THAT THE NECESSARY AMEND-
MENTS TO, OR CHANGES IN EXISTING
LEGISLATION SHOULD BE ENACTED WITHOUT
UNDUE DELAY."

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BY MR. PARKER:

Q. Look at the bottom of the first page. Hage you a copy of the circular you sent to the 1,800 members?

A. Yes.

Q. Will you let me have one? A. Yes.

Q. I would like to see how it compares with other circulars. Did you draft this? A. Mr. Willard did.

Q. You did not draft it? A. Between us, Mr. Willard, Mr. Malcolm and myself.

Q. Did you have a copy from any other branch or section of the Retail Merchants' Association?

A. No.

Q. Is this the circular you refer to when you say that all these members have, by circularization, been advised of the substance of the brief here presented?

A. That is the circular.

Q. In this circular you say: "Don't forget that 171 independent retail stores were sold to cooperatives in Saskatchewan in 1943. Where did you get that information?

A. It is general.

Q. But where did you get it? A. I don't remember exactly, but we got it from the same source that Mr. McQuarrie would get it. Since that time I understand it is wrong.

Q. Then you say: "Do you want this to happen in Manitoba?" How many of these did you send out?

A. Eighteen hundred.

Q. And how many replies did you get? A. Approximately 480 or 490.

Q. And you assumed that those who did not take the trouble to reply were in favour of it? A. Most of them.

Q. This is how you asked for an answer: "I believe

that consumer cooperatives should pay income tax and excess profits tax and all other taxes on the same basis as other independent business concerns and that they should not be given any concessions by provincial or federal law giving them an unjust advantage over the independent retail merchant." You asked them to sign that? A. Yes.

Q. And that was sent out before you ever submitted the brief, and now you ask permission to say that this brief represents the voice of these 1,800 -- the document that we have before us? A. We believe it does.

Q. There is some rather strong language in this brief. Look at page five and see what inference you expect to be drawn from what you say. Look at paragraphs (g) and (h) of section 4. You begin that section by saying: "The independent retailer is a pioneer" and he is this and that, and in (g) you say he "is not a dishonest person or a profiteer." Did anybody ever suggest that he was? A. No.

Q. Then what was your point in putting that statement in there? A. The point is that there is a sort of general impression on the part of many people -- not necessarily cooperators, because I have heard it myself many times -- that the independent merchant does take abnormal profits.

Q. You did not intend the inference to be drawn that the cooperatives were dishonest persons? A. Definitely not. It was not put there for that reason.

Q. And in (h) you say that he "does not try to avoid carrying his share of the tax burden under the guise of a 'movement'". What was the object of putting that in? What was that intended for? A. It is there because it is a statement of fact; he does not.

Q. Did anybody ever say that the retail merchant did? Is there any occasion for denying something that was never asserted? A. Since you put it that way, may I say that the inference may be drawn that we feel that the consumer cooperatives are trying to avoid paying their rightful share of taxes under the guise of a movement. That is not correct.

Q. Instead of saying that you do not, why did you not come out absolutely and say they were trying to do that.

MR. SWAIL: Mr. Chairman, I am a practising barrister. I was consulted by this gentleman and I would submit that the statements in the brief speak for themselves, and my learned friend should not submit the witness to the questions he is putting to him. I submit it is hardly just.

MR. PARKER: I am quite finished. Perhaps my learned friend would like to ask a few questions.

BY MR. ARNASON:

Q. What is the membership of your Association?

A. For Canada or in the province of Manitoba? That is confidential information if it is required. I would be glad to supply it.

Q. I do not think it is necessary. A. It is quite substantial.

Q. Do you know how many retail establishments there are in this province? A. Not definitely. We have a mailing list of 1,800 but there may be quite a number who are not on that list.

MR. THORVALDSON: With respect to the point raised by Mr. Parker touching this brief, when he examined the witness in connection with the circular that was sent out by the Retail Merchants' Association in which reference is made to 171 stores in Saskatchewan, I think I ought to make

a brief statement at this time. If there is an error in that figure the witness should not be blamed for it. Moreover, if there is an error in the figure, the mistake was made by an official of the Wartime Prices and Trade Board in Regina. I take it for granted that there is an error there but I assure the Commission that the figure came from the Wartime Prices and Trade Board. That official would have been questioned in Regina but he was out of the city and could not be located. At any rate, that is the source from which the figure was obtained and if anyone is to be blamed for it, if it has been proven wrong, it is not this witness who should take the responsibility.

.....

MR. PARKER: The next brief comes from the Insurance Agents Association of Winnipeg.

R. C. McKIBBIN,

President,
The Insurance Agents'
Association of Winnipeg,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. What is your position with the Association?

A. President.

Q. The Association set-up is described in your brief?

A. Yes.

Q. How long have you been President? A. Just this current year.

Q. As to the statements made in the brief, are you prepared to swear that they are correct and true?

A. They are correct as taken from the blue books.

Q. The statements which you make are statements within your own knowledge? A. Yes.

Q. The statistics you have given are taken from the blue books? A. Yes.

Q. Will you read the brief. A. Yes. It reads as follows:

"Submission to the Royal Commission on Cooperatives made on behalf of The Insurance Agents' Association of Winnipeg.

"This submission is made on behalf of The Insurance Agents' Association of Winnipeg, representing 118 of the leading insurance agencies transacting business in the city of Winnipeg, as per list attached, and their many hundreds of employees.

"The members of The Insurance Agents' Association of the city of Brandon also desire to be associated with this submission, as they fully concur with the views advanced.

"We welcome this opportunity of submitting a brief in support of an equalization of taxation of all fire and casualty insurers. In our capacity as insurance agents for the joint stock insurance companies we have for some years viewed with great concern the discrimination that now exists in respect to taxation. This discrimination has been greatly accentuated since the commencement of the war due to heavy wartime taxation. Mutual and reciprocal insurers, being exempt from the Income War Tax Act and the Excess Profits Tax Act are now in a very preferred position as compared with the stock insurance companies. This difference in taxation is a serious competitive handicap to the stock companies, and in consequence the position of their agents is prejudiced and the field of their endeavours circumscribed, and we respectfully submit that all insurers should be brought on the same basis of taxation.

Unless this discrimination is rectified no stock company agent is able to look into the future or to formulate post-war plans with any degree of confidence while we are threatened with the spread and growth of non-taxpaying insurers and unfair discrimination which is becoming a serious competitive factor.

"Since the livelihood of our members and their employees is derived from the sale and servicing of insurance protection furnished by stock insurance companies, we view **with** alarm the continuation of the present taxation situation which jeopardizes that livelihood.

"We therefore respectfully submit that our vital interests are threatened by unfair taxation between our principals, the stock fire and casualty insurance companies, and their competitors, the mutual and reciprocal insurers, because:

"The general insurance business has always been a highly competitive business, both between different types of insurers and between their producing agents. The insuring public today, as in the past, demands:

"The broadest insurance protection in reputable and strong companies -

"Equitable insurance costs, commensurate with the protection and service received.

"Insurance agents, representing stock insurance companies, have always subscribed to the economic philosophy that these requirements of the insuring public can best be met by the class of companies which they represent, because:

"Only stock insurance companies maintain an inspection, rating and fire prevention bureau in this territory, which provides:

"A basis for the measurement of equitable and non-discriminatory insurance rates.

"The inspection of the fire defences of all cities and towns, and a fire prevention and protection engineering service for individual properties, which is of direct benefit to the public and reduces insurance costs. Such services are recognized by all authorities throughout Canada as standard.

"The maintenance of laboratories for the testing and grading of hazardous goods, equipment and devices for the elimination of hazards and the protection of life.

"Stock insurance companies, through their world-wide operations and experience provide the financial security and business stability by which the public is best served, and furnish the complete insurance requirements of a community.

"Stock insurance companies, by virtue of the cost of the foregoing services essential to the community, have voluntarily placed themselves at a competitive disadvantage with their competitors in the matter of price. Despite this differential, prior to the war we insurance agents, representing stock companies, were able to offset the price competition by the above services. On this basis we have built important businesses in the community and have enjoyed the confidence of the public. With competition per se, therefore, we take no issue, but when the State, in its role of a taxing body, inflicts serious discriminatory treatment in the matter of taxation between two classes of business enterprise within the State and levies taxes on the basis of their respective economic philosophies, then we feel impelled to emphatically protest.

"We also desire to make the following specific representations to this Commission:

"That the interest of free enterprise in the insurance business is seriously jeopardized by the present tax discrimination. An examination of the last available six years Canadian experience, taken from the Dominion Government Blue Book, of six stock and six mutual insurance companies, operating extensively in this territory bears this out.

"Appendix A -- Mutual Insurance Companies, and Appendix B -- Stock Insurance Companies -- show the relative underwriting profit.

Interest and dividend earnings from investments

Trend of surpluses

Dividends to members or subscribers.

"Appendix C -- Income and Excess Profits Tax -- Fire and Casualty Companies -- shows the relative burden on the respective classes of insurers of the tax incidence. For example, in Appendix A, the Wawanesa Mutual in the six years 1937-42 inclusive shows the following results.

Total underwriting profit	\$1,066,072.93
Returned to policy holders as dividends	88,741.90
Surplus increased from \$815,293.27 to \$2,014,637.07	

or 27 per cent.

"Appendix C illustrates that in 1942, 72.8 per cent of the stock companies' underwriting profit of \$5,907,143 went to the State in taxes, whereas none of the mutual companies' and reciprocals' underwriting profit of \$2,228,662 was taxed.

"As a result of this virtual subsidy by the government through tax exemption, mutual insurers have been permitted to expand and develop at the expense of their tax-paying competitors and their representatives, ourselves their agents.

"Note: The Dominion Government Department of Insurance Blue Book reports for the years 1943 and 1944 are not yet available. It is believed that when such information is released it will disclose that the amount of income and excess profits taxes paid by stock insurance companies will be in excess of those imposed in previous years."

I have just heard that the 1943 Blue Book is available. It was not when this was written. Continuing:

"The theory of taxation on the basis of the ability to pay is being disregarded since these figures establish the ability of mutual insurers as such to carry their share of the tax burden. A continuation of this policy will permit tax exempt enterprises to eventually destroy their tax-paying competitors through -

Unfair price advantage,
Payment of dividends as an inducement to
enlarge their markets,
Pyramiding earnings as capital, thus creating
reserves for extensive expansion or capital
with which to buy out their tax burdened
competitors.

"The ultimate result will be the disappearance of tax-paying insurers and their agents.

"That, aside from the profession of a belief in different economic philosophies, both stock and mutual insurers compete for business by similar methods. In this territory there is very little business now being written on a straight mutual plan. Appendix A indicates the following percentages of net written premiums to be on the assessment note plan in 1942.

Wawanesa

17.5 per cent."

That is 16.5 per cent actually. Continuing:

Portage la Prairie	51.9 per cent
Gore District	Nil
Northwestern Mutual	Nil
Mill Owners	Nil

"For the greatest part, then, mutual insurers are transacting their business on the 'cash plan' whereby non-assessable policies are issued on a straight cash basis in competition with joint stock insurers. It is therefore our contention that a large number of so-called mutuals are not in fact mutual insurers.

"We respectfully submit that where two classes of insurers compete for the same type of business in the same field of enterprise, there is no justification for the continuance of a policy by the State whereby a tax discrimination favours one to the prejudice of the other.

"As individual income tax payers, the personal income tax of all members is higher than otherwise would be if mutual insurers were contributing to the national exchequer and in consequence our burden of taxation is increased because organizations such as mutuals are not fully contributing to the cost of operating the State.

"In conclusion it is submitted:

"That the economic welfare of the country is ill served by legislation and practices that discriminate between one citizen and another in the search for a livelihood, and

"That while it has been alleged in certain interested quarters that the economic salvation of the country depends upon the growth and development of cooperative enterprise such statement is a statement of opinion only and one would expect that the advocates of such theory would welcome the opportunity to have the conflicting theories, i. e. private enterprise and cooperative enterprise compete on a fair and

equitable basis, since only on such a basis can it be determined which system best serves the public interest.

"Respectfully submitted,

The Insurance Agents' Association of Winnipeg."

Documents filed with brief:

- Appendix "A" -- Mutual Insurance Companies
- Appendix "B" -- Joint Stock Insurance Companies
- Appendix "C" -- Income and Excess Profits Tax
Fire and Casualty Companies

List of members of The Insurance
Agents' Association of Winnipeg
and

List of members of The Insurance
Agents' Association of Brandon.

.....

BY MR. PARKER:

Q. From your studies concerning this matter, have you any suggestions that you can place before the Commission as to how or on what basis the discrimination of which you complain might be remedied? A. Well, I have my own personal opinion, sir, but that has not been discussed officially.

BY MR. MANN:

Q. At the end of the brief you give a list of concerns numbering 118. Are they members of your Association?

A. Yes.

Q. And the agents that you refer to represent joint stock companies, members of the Western Canada Underwriters Insurance Association? A. Yes.

Q. That is a recognized rating body for the three western provinces? A. Yes.

Q. And the stock companies, members of that Association, are entitled by virtue of membership, and their agents,

to copies of the Association's material? A. Yes.

Q. The rate schedules? A. Yes.

Q. Every type of rating material there is?

A. Yes.

Q. Your members get that by virtue of membership in the Association? A. Yes.

Q. It has been said that the cost of preparing the plans and all the material of the western association is in the vicinity of eight and a half million dollars. Do you know anything about that? A. I am sorry, I don't know. It would be a large sum of money.

Q. When you speak, in your brief, of the maintenance of laboratories, inspection and so forth you are referring to the maintenance of laboratories, etc. of the Western Canada Insurance Underwriters Association? A. Yes.

.....

Brief submitted by the Manitoba Associated Boards of Trade

MR. PARKER: I understand that Mr. Loftus is going to present this brief.

MR. EDWIN LOFTUS: I am acting for the President of the Associated Boards of Trade, who lives in Portage la Prairie. He informed me that he would not be able to come here and requested, in that event, that I read his submission to you.

MR. PARKER: Did you personally have anything to do with the preparation of the brief?

MR. LOFTUS: No.

MR. PARKER: You are merely reading it for him?

MR. LOFTUS: Yes.

MR. PARKER: Did he prepare it himself?

MR. LOFTUS: I have knowledge that it was prepared by him but whether solely by him, I do not know. I think not.

I believe it was in cooperation with others. Mr. Miller asked me to extend his apologies to the Commission. With your permission, sir, I will read the brief. It is very short:

"The membership of this Association is composed of Boards of Trade and Chambers of Commerce in the province of Manitoba, joined together for the purpose of dealing collectively with provincial problems and federal problems in so far as they affect the province of Manitoba and the citizens thereof.

"At a general convention of this Association held in the city of Winnipeg on the 25th of February, 1944, the following resolution, pertinent to this inquiry, was passed:

Declaration in support of equitable
taxation and legislation for all business
enterprise

'WHEREAS various experiments tried throughout the centuries have proven that the profit motive as exemplified and developed by individual enterprise and initiative have tended to create a high degree of efficiency, the greatest development of natural, and employment of human resources, and a high standard of living for all; and

'WHEREAS corporate, individual, partnership and other forms of private industry are ready and willing to demonstrate their efficiency on a fair competitive basis, compared with other forms of enterprise such as Governments, municipal, cooperative, mutuals and State Socialism; and

'WHEREAS certain forms of cooperative, Government, municipal, and mutual enterprise now enjoy freedom from income, excess profits and in some cases municipal taxation, coupled with Governmental encouragement

through special legislation; and

'WHEREAS Governmental favours in the form of tax privileges and special legislative advantages to any section of an industry is at the expense of the Dominion Treasury and the ordinary taxpayer and imposes an inequitable burden on other sections of the industry which makes it impossible for the section discriminated against to function efficiently and effectively. Private industry urges that all forms of business undertakings be called upon to operate without special legislative advantages.

'THEREFORE BE IT RESOLVED that The Manitoba Associated Boards of Trade call the attention of Governments, all political parties and the public at large to the desirability of all taxing authorities in Canada establishing equitable taxation between all forms of business undertakings and removal of special legislation favouring any section of industry and commerce, in order that Free Enterprise may continue to formulate and carry out plans which will enable Canada to maintain her position in national and international post-war developments, and to provide maximum employment.'

"Again at its Annual Convention held in the city of Winnipeg on December 6th and 7th, 1944, with forty Boards of Trade participating, the above resolution was unanimously reaffirmed, and the delegates instructed their Executive Council to place their views before your Commission.

"This Association is opposed to discrimination in taxation as between various types of business. It is not opposed to cooperatives as such, but takes the stand that cooperatives should either be taxed on a par with other

business organizations, or such other business organizations should be relieved of taxation to reduce them to the taxation scale of the cooperatives.

"While recognizing the imperative need of reducing taxation at the earliest possible date in order to enable business to plan effectively to meet post-war reconversion problems and maintain a high level of employment, this Association realizes the difficulty in inducing the Federal Government to reduce taxation at this time on corporations and other businesses when money is so urgently needed. If, therefore, the Federal Government is adamant in this respect, then in the opinion of this Association the cooperatives should be taxed on a similar scale, as businesses generally cannot hope to compete with corporation taxes and excess profit taxation at such a high level as at present, while business organizations in similar fields, by virtue of being cooperatives, escape this taxation. It is virtually a subsidy to the competitors of ordinary business concerns in favour of cooperatives.

"This so-called subsidy or exemption from taxation has two effects at least. In the first place, it permits the cooperatives to create surpluses with which they can expand and even buy out tax-ridden competitors and in the second place, it permits the cooperatives to refund to customers part of their profits. Ordinary businesses could not possibly make such refunds, because the portion of their profits that would perhaps be available for refund or reduction of prices of commodity or service must go to the Federal Government by way of taxes.

"It is felt by this Association that unless there is a cessation of this unjust tax discrimination, all businesses will ultimately have to become cooperative or pass out of

the picture! This would be a disturbing disruption of the commerce of the nation and might have repercussions that would effect the financial solvency of the whole business structure, the reactions of which would spread into all corners of our country and effect every class of person.

"This brief does not purport to deal with statistics or such matters, as undoubtedly many briefs will be filed with the Commission dealing with this phase, but it is intended to bring before the Commission the views of this Association opposing without equivocation, existing discrimination in taxation.

Manitoba Associated Boards of Trade."

.....

Brief submitted by The Winnipeg Board of Trade

MR. LOFTUS: I wish to present the brief on behalf of the Winnipeg Board of Trade.

MR. PARKER: What position do you hold with the Board of Trade?

MR. LOFTUS: I am simply Counsel for the Winnipeg Board of Trade in this matter. I am also, as a matter of fact, one of the Vice-Presidents of the Winnipeg Board of Trade, though I do not appear in that capacity. The brief reads:

"1. The Winnipeg Board of Trade desires to make it clear that it is not opposing cooperative or mutual business enterprises as such."

I emphasize this because even in this room the question has been asked me why it is that the Winnipeg Board of Trade opposes cooperatives. Another person expressed surprise that the Winnipeg Board of Trade should antagonize

40,000 farmers by opposing the cooperatives. I wish to make it clear therefore that the Board does not oppose cooperatives. That is why I emphasize the point. As a matter of fact, the Winnipeg Board of Trade does not urge that cooperatives be taxed unless their exemption results in inequitable taxation. Continuing:

"It does believe in equitable taxation and is opposed to the exemption now existing (whether legal or illegal or merely by practice) to these organizations from income tax and excess profits tax and other taxes imposed on competing business enterprises.

"2. In Manitoba, the law in reference to cooperatives is contained along with the law relating to ordinary business corporations in the Companies Act (Manitoba); cooperatives are therein referred to as corporations."

I wish to emphasize this statement also. They are a distinct entity from their patrons or members, just as the shareholders of a joint stock company are distinct from the joint stock company itself. The cooperative is an entity. Continuing:

"In many respects the sections of the Act dealing with cooperatives are similar to the analogous sections dealing with ordinary business corporations."

In other words, the members are exempt from personal liability the same as the shareholders of a joint stock company. Continuing:

"3. Many, if not all, of the cooperatives buy for re-sale and resell in the same manner as other business enterprises; compete with and receive the same benefits as other enterprises, by way of protection under the laws and of the armed services of the country, in all respects as fully

as competing enterprises, yet these cooperatives are exempt (whether legally or illegally or only by practice) from the heavy taxation imposed under The War Income Tax and Excess Profits Tax Act upon the competing business enterprise."

In paragraph four we confine ourselves to the hypothetical case of small business enterprises. We felt that larger enterprises would be adequately represented by special presentation and special counsel. The Board of Trade therefore decided to confine itself to a section which might not be represented here, namely, the small business man. Continuing:

"4. For example, compare the hypothetical case of two business enterprises, one cooperative (so-called), and the other an ordinary small business corporation; both in the same village or town, both conducting a general store business, both carrying the same line of goods and both purchasing and selling at practically the same prices and to the same general public and having practically the same expenses, rent, employees, and so forth; both having in the year immediately preceding the imposition of the Excess Profits Tax, an excess of receipts from the sale of goods over disbursements, say of \$6,000, thereby establishing a standard profit of \$6,000; and in the year 1944 each having an excess or net profit of say \$8,000.

"For the year 1944, the ordinary corporation would be liable to pay to the Government of Canada, roughly speaking, the following by way of War Income and Excess Profits Taxes --

"Income tax 18 per cent on	
\$8,000	\$1,440
Excess profits tax 12 per cent	
on \$8,000	960
100 per cent in Excess profits tax	<u>1,400</u>
Arrived at as follows:	\$3,800

continued.....

Income	\$8,000
Standard profits	<u>6,000</u>
Difference	\$2,000
Less 18 per cent and 12 per cent	<u>600</u>
Net or 100 per cent tax	<u>\$1,400</u>

leaving to the ordinary business company out of the \$8,000, only \$4,200 for distribution among its members or other purposes of the Company, such as building up a reserve or increasing the capital assets or reducing liabilities, as against \$8,000 available to the cooperative for similar purposes.

"5. In other words, the cooperative is benefited to the same extent as if the Government had taxed it in the same manner and to the same extent as it taxed the ordinary business corporation and then made a special grant to the cooperative of \$3,800; in which case the Minister of Finance in his budget might have included the following item:

To subsidy or bonus for the year 1944	
tocooperative	\$3,800

and had stated in his budget speech that, of course, this bonus of \$3,800 would have to be paid by the other taxpayers of Canada. As this is an example of a comparatively small mercantile cooperative, in order to get a true picture of the result of such exemptions, this sum of \$3,800 would have to be multiplied hundreds of times to show the real loss to the taxpayers of Canada arising out of the exemption to cooperatives, which comprise not only a small retail outlet such as is referred to above for illustrative purposes, but right through the distributing and marketing system embracing different phases of merchandising, service

organizations, mutual insurance, pool elevators, etc.

(See study prepared by Messrs. A. E. Richards and Lucienne Lalonde, of the Market Service Economic Division, Department of Agriculture, Ottawa, entitled 'Co-operation in Canada, 1943').

"The Board, of course, recognizes that a very small portion of this unjust tax imposed upon ordinary corporations may be refunded after the war. In the case of our example, the refund would amount to only \$200, when paid.

"6. In other words, the Company is competing for business with a cooperative under a handicap imposed on the Company by the Government of \$3,800 for the year 1944; and if the present laws and the present mode of enforcing (or not enforcing) them is continued under a similar handicap for succeeding years, no business can continue to compete for a long time against such a handicap. In the particular case just outlined, one of three results will follow:

"(a) The Company will be forced out of business and its place in the trade of the community taken by a cooperative, or

"(b) The Company will reorganize so as to obtain the same treatment as its competing cooperative. In either case, the Government will lose the \$3,800 paid by the Company; multiply this by the thousands of similar cases which will arise in the Dominion and the loss to the Dominion in taxes will amount to many millions of dollars, all of which must come out of the pockets of the other taxpayers.

"(c) The Company may, perhaps, continue in business if and for so long as its suppliers of goods -- wholesalers, distributors and/or manufacturers -- will continue to supply it with goods at continuously decreasing prices, in which case taxable profits of such suppliers, as well as of the

Company, will decrease and continue to decrease -- and the taxes payable under the Income War Tax Act and Excess Profits Tax Act by the suppliers as well as by the Company, decrease until none have any profits and eventually, no reserves; when all will be forced out of business or at some time in the stage of constantly decreasing profits, be forced to reorganize so as to obtain the same treatment as the cooperatives.

"7. The foregoing example would, with minor changes, apply to a partnership or an individual carrying on business in competition with a cooperative.

"8. The present laws or the mode of administering and enforcing them, amount to a statement by the Government of Canada to business men in language similar to this:

"Notice to Non-cooperative business corporations:

So long as you continue doing business as non-cooperative business corporations, you will be subject to the current income tax and excess profits tax; if you desire to avoid these taxes, reorganize your business along cooperative lines and enjoy the same exemptions as cooperatives.

"9. The evil of the present inequitable system of taxation as between cooperatives and ordinary business is not confined to the loss of income of the Dominion Government. A greater evil is the forcing of all business eventually into cooperatives. If and when the time comes that all, or at least the greater portion of business, is driven into cooperatives, the Government will be forced from financial necessity:

"(a) to impose taxes on cooperatives and presumably along the same lines and at the same rates as now imposed on non-cooperative corporations, or

"(b) to take over and administer and carry on all business in order to divert to the Government the profits to be derived therefrom, or

"(c) to increase very greatly the taxes on individuals either by lowering the present exemptions, or increasing the present rates or both.

"We submit the first alternative outlined in (a) is perhaps at the present time the only practical procedure to adopt in view of the urgent need for maximum Government revenue to finance the war -- unless the Government should see fit to create equitable competitive relationships between cooperatives and other forms of business enterprise, by removing the levies for income tax and excess profits tax from the latter.

"It is inconceivable that the Canadian people would willingly sanction all that is implied under alternative (b) which, if it became effective, would substitute the unimaginative mind and dead hand of Government bureaucratic control for that initiative and enterprise which has built Canada and created a great trading nation -- a nation which, in pre-war years, was the Mecca for many thousands of immigrants who were attracted by the opportunities which it presented, and should continue to present, for enterprising men and women to establish new homes and businesses.

"In this connection, without casting any reflections on necessary war-time price and wage controls -- which we uphold as essential to prevent the disastrous inflation which previous experience has demonstrated would ensue without them -- we further submit that the Canadian people would not, and should not, tolerate the permanent imposition of Government controls and the civilian and commercial espionage system which accompanies such State control.

"In short, we do not believe the Canadian people are prepared thus to handicap deliberately the future progress of their country, both in the domestic and foreign fields.

"As regards alternative (c) we submit that any further additional income tax on individuals would emphasize and accelerate the impact of the law of diminishing returns which, even under the stress of war-time emergency has already revealed itself in absenteeism, diminished incentive, and other forms of restiveness and protest, which bode no good for the country.

"10. The foregoing presentation applies also to mutual corporations.

"11. In conclusion, the Winnipeg Board of Trade submits the implications of the present unfair and unequitable competition between tax-exempt cooperative organizations and other forms of business enterprise go much deeper and further than the intolerable inequity, thus represented, and the Board therefore strongly recommends both on the merits of the case, and to preserve our national well-being, that taxation as between cooperatives and mutual corporations on the one hand, and other business enterprises on the other hand, should be made equitable, and that existing laws and practices should be amended so as to give effect to that principle.

The Winnipeg Board of Trade."

THE CHAIRMAN: Thank you, Mr. Loftus.

MR. SCARTH: We may desire to reply by brief, Mr. Chairman.

The Commission adjourned until 2.15 p. m.

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The Commission resumed at 2.15 p.m.

Brief submitted by
Manitoba Retail Implement Dealers Association

MR. PARKER: This brief is being presented by Mr. H. C. Morrison in his capacity as counsel for the association.

MR. MORRISON: I am prepared to do what will meet with the approval of the Commission. I can read the brief, which is reasonably short; it is only four pages. I have with me, however, the President of the Association whom I represent and whom I could submit for examination. The Association, I may say, covers Manitoba territory and has a membership of about two hundred. I will now read the brief:

"The Manitoba Retail Implement Dealers Association covers the Manitoba territory and has a membership of over two hundred retail dealers. The dealers who comprise this membership handle at this time the greater part of all farm machinery and equipment retailed in Manitoba.

"The merchandising system of farm implements and equipment arose from small beginnings, generally starting in a blacksmith shop. Factory branches were established, distributors were appointed and manufacturers

had to develop a dealer organization. It was necessary that the manufacturers assist the dealer in both selling and financing while the manufacturers themselves did all of the servicing.

"From about the year 1918 a change took place whereby the retail dealers handled more of the sales, provided more of the service, and commenced to do some of the financing. This change progressed until about 1930 when the depression years made it impossible for the dealers to buy goods outright. But the trend had been definitely established toward the retail dealers having straight contracts for purchase from the manufacturer whereby he was called upon to carry on his own business, including that of servicing the goods sold. This was a natural development because merchandising of goods by the manufacturer of distributor merely through the channel of a local dealer to whom the business was a side line was an ineffective way of merchandising farm machinery and equipment. It has been estimated that a very high per cent of all service calls can be eliminated if farm machinery is properly set up and buyers are instructed as to its adjustment and use.

"In the more recent years preceding this date, the system of merchandising through local dealers who are definitely in this business, and who are prepared to provide themselves with the requisite facilities, has

increased to a point where it is now recognized to be a standard and effective method, in so far as both the manufacturer and distributor and the consumer are concerned. The 'curbstone' dealer is being eliminated. He has been, and is, where he still carries on, a menace to the business and in particular, he is non-competitive in the rendering of a service. It is submitted that the effective dealer deserves recognition.

"It is imperative now that retail dealers in farm machinery and equipment must be equipped not only with the knowledge to select the proper machinery which is suited to the needs of the particular farmer and the particular soil, but must also have the ability to set up machinery in the field, to see that it is actually in efficient operation, and that he is equipped with the personnel to render effective service. In order to be in this position, the dealer must make a very considerable capital investment in heavy tools, such as acetylene and electric welding and boring tools, and he must also have an adequate stock of small equipment and parts. To so do he necessarily involves the risk of becoming burdened with obsolete stock and consequent loss in that regard. He is called upon, then, to have capital, to risk it in his business, and he is called upon to acquire and build up personnel capable of servicing machinery. In these

regards, the dealer must have stability and some security of tenure.

"Personnel can be built up only by established dealers who have a sufficiently wide territory of operation and who are not subject to unfair competition. The problem of trade-ins is an ever present example of the difficulty of unfair competition suffered by an established dealer, resulting from the inexperience of agencies who either have an unfair or preferred advantage, or who are merely operating a business as a side-line.

"The key note of this submission to the Royal Commission is the matter of service. The farmer who buys machinery which is unsuited to his purposes and who is unable to have his machinery properly set up and placed in operation, and who is unable to obtain efficient service promptly, must necessarily suffer substantial financial loss. This becomes a loss to agriculture and an economic national loss. A farmer can be protected against such loss only if he is to be served by an established system of the merchandising of the goods that he requires. Such a system has developed, progressed and materialized in the province of Manitoba, and is now threatened with a setback which will impede its acceleration of progress and may indeed destroy its ability to function efficiently.

"The sale by cooperatives of farm machinery and equipment in Manitoba has not yet reached large proportions. It is, however, submitted that the growth of cooperative enterprises in the United States and in Canada in the sale of consumers goods, and particularly to farmers, indicates clearly that the cooperative movement may soon assume very considerable proportions in Manitoba.

"As an example, in about October of 1944, Canadian Co-operative Implements Limited purchased the assets of The Gregg Manufacturing Company Limited of Winnipeg, a purchase which involved an immediate investment of approximately \$400,000. The Gregg factory in Winnipeg is a branch of the Gregg Manufacturing Company Limited of St. Paul, Minnesota. It is understood that Canadian Co-operative Implements will continue to manufacture the lines formerly made by the Gregg company which include a long list of farm machinery and equipment. It is to be expected that the initial \$400,000 investment will be materially increased when wartime manufacturing restrictions are removed, and that the plant will be added to in order that it may be able to take care of orders from its farmer members. The present personnel of the plant is in the neighbourhood of seventy-five employees. It has been reported that the governments of Manitoba, Saskatchewan and Alberta propose to give financial support to Canadian Co-operative Implements Limited to the extent of \$750,000. This support will be conditioned upon the cooperative company itself increasing its own capital by at least a like amount. These figures add up to nearly \$2,000,000, and give some indication of the trend toward the cooperative movement as to the supply of farm goods in Manitoba.

"It seems unnecessary at this stage of the sittings of the Royal Commission that this brief should set forth a detailed argument as to the reasons why Manitoba Retail Implement Dealers Association believe that it is inequitable that cooperatives in competition with them should not pay income and excess profit taxes. It is, of course, contended that cooperatives being free from the burden of

these taxes are able to accumulate capital to build up their reserves and to make refunds to their patrons which impose a crippling and unfair handicap upon the competitive position of the dealers.

"A simple example may serve to illustrate. In two Manitoba towns on the same railway line and about twenty miles apart, there are seven established dealers in farm machinery and equipment. By 'established dealers' it is again meant to convey that these are dealers who are equipped to give service. A cooperative concern commenced business in a neighbouring town. The territory is limited by waste land, by the United States boundary, and by the nearness of the towns to each other, and to other towns. Let it be assumed that each of these concerns makes a \$2,000 profit over and above the reasonable living costs of those employed in conducting the business. A dealer in one town requires to build a new warehouse. The cooperative likewise requires a warehouse. The dealer pays \$1,000 income tax and has \$1,000 left over. The cooperative has \$2,000 with which to construct a warehouse. It is submitted that this is discrimination.

"It is further submitted and strongly urged that the welfare of the farmer is also threatened inasmuch as under the circumstances set forth in this example, it will not be reasonably possible that he will receive that value and service which is of prime importance to him and to agriculture.

"It is submitted, further, that the exemption of the cooperative constitutes unjustifiable discrimination in the general system of taxation and that the governments thereby lose an important amount of revenue which the

remainder of the community and ordinary income tax payers must make up.

"Reference is made to the further repercussion when a cooperative sells to a farmer who is not a member of the cooperative. This purchaser pays the full price as he would pay to an established non-cooperative dealer, and the appropriate resulting tax on the earnings arising out of his purchases are lost to the government.

"This submission is primarily made in protest of what is submitted to be an inequity in taxation, but it is here again urged that it is not in the interest of the Manitoba farmer or of agriculture in Canada that the progressive stabilization of the service dealer in farm machinery and implements should be thwarted by government paternalism of a class movement.

"Respectfully submitted by

Manitoba Retail Implement Dealers
Association, per its Counsel,
R. C. Morrison, K.C."

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The president is here if it is your wish to examine him.

THE CHAIRMAN: Do you wish to examine him, Mr. Parker?

MR. PARKER: I do not think there are any questions I wish to ask, Mr. Chairman, unless you have any.

THE CHAIRMAN: I do not think so.

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FRANK INNES

Past President,
Automotive Trade Association,
having been duly sworn,
testified as follows:

BY MR. PARKER:

Q. In what capacity do you appear? A. I am appearing as past president of the Automotive Association.

Q. How long have you been connected with the Association? A. I think I can safely say I was one of the founders.

Q. How long ago? A. Ten years.

Q. Did you prepare this brief? A. With assistance.

Q. Who assisted you? A. In the first place, at the executive meeting in January, the directors attending that meeting discussed this matter and instructed Mr. Willard and myself, with the help of officers of the Association, to go ahead and prepare a brief.

Q. How many constitute the executive? A. There were about twelve at that meeting.

Q. Twelve out of how many? A. I would say twelve out of seventeen.

Q. How many members have you altogether? A. About 602.

Q. Was this brief sent out to your members at large to get their views? A. No.

Q. It represents the considered views of twelve or so of the executive? A. In our organization our organizer travels through Manitoba and it is his duty to pick up any information or complaints from the independent dealers or members and report back to the executive, and it was on the strength of his report that this brief was written by the executive.

Q. You are not an incorporated body, your Association?

A. No.

Q. It is just an association kept together for your mutual help? A. Yes, our mutual help and benefit. There may be in this brief the odd word that has been used inadvertently, or there may be the odd typographical error which I will correct as I go along:

"This brief is presented on behalf of the Board of the Automotive Trade Association.

"This Association is a service organization operating within the province. Its active membership consists of hundreds of independent garage and service station operators in almost two hundred points in all parts of Manitoba, as well as about 90 per cent of those in the city of Winnipeg. Only persons established in such business are eligible for active membership.

"The Association has been in existence for ten years, and during its lifetime has been active in all movements having as their object the betterment of conditions in the trade; the promotion of amicable relations between members themselves, also between members and their suppliers, and the consuming public.

"It has been diligent in its support of the Wartime Prices and Trade Board and the Oil Controller; has been at pains in seeing that those in the business are informed on all regulations laid down by these bodies, and in advocating their strict observance.

"It took a leading part in urging upon the provincial government the necessity of an apprenticeship act, and since the passing of the act has had the automotive industry listed as a designated trade (thus making for a still

higher standard of service), and has lent invaluable aid to the board in its work of completing arrangements for the application of the Act to this industry.

"It is an active organization of a great deal of substance. Most of the wholesalers of automotive equipment in the province hold associate memberships, and it can safely be said that the association is recognized, by those in the trade, as the voice of the independent garage and service station operators in Manitoba.

"The expansion of the operations of consumer co-operatives in the distribution of petroleum products in the rural areas of the province has long been a matter of concern to independent operators. This expansion has shown a marked acceleration in recent years, and it is a fortunate circumstance that enables us to place the case for the independents before the proper authorities at this time.

"We shall make no attempt to cover the whole field of taxation laws as affecting cooperatives, but will confine ourselves to the specific case in hand -- the position of the independent operator of a garage or service station competing with, or in danger of competing with the consumer cooperative.

"From that standpoint, the following is respectfully submitted:

"The sale of gasoline in the province is conducted in the following ways:

1. Sale by tank car
2. Sale from tank wagon
3. Sale in barrel lots
4. Sale at retail

"The explanation is as follows:

"Sale by Tank Car:

"This type of sale is made by the refineries, and is confined to those with a storage of sufficient capacity to take delivery of a tank car of gasolene - approximately 8,000 gallons. These storages, in rural areas, are called 'bulk stations'. Some are operated by the large oil companies: these are usually managed by a local man, who frequently is the operator of a garage or service station in the town, but not necessarily so. He is responsible for the product, and receives from the oil company remuneration in the form either of salary, or commission on sales.

"Some are owned and operated by private concerns other than the oil companies, some by consumer cooperatives.

"Sale From Tank Wagon:

"This type of sale might be made either from the main storage plant of an oil company or from a bulk station. It is confined to those operating pumps for the sale of gasolene at retail.

"Sale in Barrel Lots:

"This type of sale is confined to farmers, or industrial users who purchase in barrel lots or greater, but who do not sell at retail. It includes sales to companies operating what are known as consumer pumps for serving their own commercial vehicles, etc. The sale may be made by an oil company direct; a bulk station operator, or by a retailer. It may be made from a tank wagon, or in barrels, but is known as a barrel lot sale.

"Sale at Retail:

"This type of sale includes all sales by the gallon

to operators of motor vehicles and others buying in less than barrel lots.

"Schedule of Price Spreads:

"In simplified form, the generally prevailing price spreads in the province are as follows: (Spreads shown are approximate, and may vary between concerns or areas).

"Tank Car..... Basic Price"

We have not attempted to put the price in here. We are using that as a basic price.

"Tank Wagon..... Basic Price plus .03¢

"Barrel Lot.. Basic Price plus .04¢

"Retail..... Basic Price plus .07 $\frac{1}{2}$ ¢"

That is the retail here in Winnipeg. At country points that varies. In the basic price and the tank wagon and barrel lot prices there is very little variation up to that point, but the retailers are their own boss and may take a larger margin at country points than we have.

"All gasoline sold in the province is subject to the following taxes: Federal- .03¢; Provincial- .07¢; total- 10¢, but as this is collected at the source, it does not affect the price spreads.

"The Independent Retailer, regardless of the volume of his business, or the services offered in connection with it, purchases his supplies of gasoline for use in his retail pumps at the tank wagon price, viz: basic price plus .03¢ per gallon. It follows, therefore, that his margin of profit is:

Sales at retail..... .04 $\frac{1}{2}$ ¢

Sales in barrel lots..... .01¢

"The Consumer Cooperative, at the outset, purchased gasoline in barrel lots, which were distributed from a ware-

house to members. Later, however, groups were organized in certain districts who financed the establishment of bulk stations. When such a bulk station was in operation, purchases were, of course, made at the basic price. On the face of the matter, no fault can be found with this, as independent operators have the same opportunity.

"But, with the passing of time, the tax-free position of these groups has enabled them to accumulate large surpluses, and today, we find that without further investment on the part of the shareholders they have been able to encroach on other branches of the automotive industry, such as establishing repair garages; departments for the sale of batteries, tires, accessories, etc. The profits on these transactions also being tax-free, their relative position becomes further enhanced with each new venture; the savings in unpaid taxes increase, and the movement becomes a veritable avalanche increasing in momentum by its growth, and in growth by its momentum.

"In the foregoing, we have dealt only with places where the cooperatives have established bulk stations. These instances, though normal under existing laws, serve to illustrate the position in which the tax-paying independent is placed when forced to compete with the tax-free cooperative.

"In later years, however, the power accruing to the general cooperative movement from this beginning, has assumed proportions bordering definitely on the vicious, as we find that the following situation exists today:

"The cooperatives, led by these locals with bulk stations, and including many other locals with no more facilities for the handling of gasoline than a mere

warehouse, or perhaps a retail pump, place in the hands of a central cooperative buying agency a tentative order for their entire requirements of gasoline for a given period - say a year, or season. This buying agency, vested with this amount of purchasing power, has been able to negotiate, with the great oil companies, contracts or arrangements for the purchase of gasoline on a very favourable basis.

"We do not say that the locals which operate bulk stations buy at less than the advertised basic price; it may be suspected, but substantiation is lacking."

The brief says: "advertised basic price". That is a wrong wording; it should be "normal basic price". Continuing.

"We do know definitely, however, that the other locals mentioned above, which have no or only meagre facilities for handling the product, are able, by virtue of these arrangements, to go to a bulk station operated by an oil company, and purchase gasoline in barrel containers at one-half cent over the basic price. This is $3\frac{1}{2}\text{¢}$ less than the standard barrel price; $2\frac{1}{2}\text{¢}$ less than the price at which the independent competitor can purchase the product for use in his retail pumps.

"We have a case on record where an independent service station operator is also the manager of a bulk station owned by an oil company. It is an actual fact that he himself must pay for gasoline supplied to his own retail pumps from the bulk station he manages, $2\frac{1}{2}\text{¢}$ more than he is instructed to charge the cooperative which picks it up from the bulk station in barrel lots.

"There are cases where an oil company may own a service station. This station is rented to an operator,

who is expected to pay rent for it to that company, and make a living, after paying tank wagon price for gasoline purchased from the bulk station owned by that company, while the same company, through the pressure brought to bear upon it, must supply a cooperative warehouse the same gasoline in barrel lots from the same bulk station, at $2\frac{1}{2}\%$ less than the price paid by its own tenant.

"In these cases, therefore, we find that from the standpoint of the independent, the cooperative is an opponent wielding a two-edged sword: first, it has all its normal profits tax-free; second, it has the additional profits realized through its low cost. These double savings, neither of which is just, can soon accumulate to a point where the cooperative, without further investment on the part of its members, may expand into all fields of the automotive trade.

"Moreover, the oil company must pay expenses, and as the one-half cent margin realized on these barrel sales to the cooperative cannot cover the per gallon expense of the bulk station, the price of gasoline to the independent must, of necessity, be advanced to make up the difference.

"Here, then, we have a situation perhaps unparalleled in any other phase of consumer cooperative activity at this time, in that the tax-free position of the cooperatives, inequitable in any event, has enabled combined cooperative groups to amass sufficient buying power to gain special concessions from large companies, so that they have a three-fold advantage over legitimate competitors; to wit:

1. They are tax-free, while the competitor pays taxes;
2. They purchase their requirements below normal healthy levels;

3. Their ability to do must result in the competitor's price being above normal levels.

"The avowed purpose of the cooperative movement, in its inception, was to combat the monopolistic tendencies of large vested interests; but we find that in this instance it is now itself the vested interest, with the self-same tendencies it so recently condemned, and its only victim is the struggling independent operator.

"It has become, in fact, the very thing it was created to oppose.

"While for the immediate present we have before us only the instance here treated, we should remember that the same situation can easily develop in all fields of merchandising. Indeed, this development may well be started already, and if permitted to spread unchecked it can threaten our whole economic structure.

"In the instance under review, a like case could be built up today regarding the sale of other petroleum products. We have chosen to deal with the single example of gasoline, as it is most widely prevalent; it is clear-cut and free of complications; the issues are sharply defined, and the illustration should serve, we submit, to demonstrate the justification of our position.

"That position is:

"That the laws which permit, by virtual subsidization, this unprecedented expansion and usurpation of power on the part of any one class of business operator at the expense of others in the same field, if conceived in honesty - which should not be doubted - must have been designed for application in an era in our national, economic and social life which has now passed, and that they have become, by their very obsolescence, inequitable

and irreconcilable with our national heritage of free enterprise under impartial legislation.

"We submit that our elected governing bodies should so alter these laws as to make them justly applicable to present conditions, by withdrawing the tax exemptions now applying to consumer cooperatives."

BY MR. PARKER:

Q. In Manitoba is the gasoline trade controlled to any extent by the public utilities board? A. No, not to my knowledge.

Q. There is no government restriction on the number of retail outlets that can be set up in this province? A. No, not to my knowledge.

BY MR. SCARTH:

Q. Turn to page seven. In the second paragraph you say: "It is an actual fact that he himself must pay for gasoline supplied to his own retail pumps from the bulk station he manages, two and a half cents more than he is instructed to charge the cooperative which picks it up from the bulk station in barrel lots." You mean the cooperative can buy at two and a half cents cheaper than the retail? A. In the oil business in western Canada practically everyone that works in the business works for a firm that cannot publicly come out and give information with that firm's name attached to it, but our information in this regard was got from men in high positions who are in a position to offer the sale of gasoline to these cooperative movements, and in that regard we can't divulge their names because their livelihood might depend on it. I have a letter, if the Commissioners would wish it, from a retail merchant. I have recopied it and left out the names of the oil company and the retail merchant and the

town he comes from, and another man he mentions, because the man he mentions is the tenant of an oil company. I left out the company's name because it would not be fair to them to bring one company's name into this meeting and not have them all. But I can take my oath, and other gentlemen in the room can take their oath, that outside of deleting names this is an exact copy of a letter from a retailer.

Q. You do not know the facts yourself, apart from what you have read in the letter. You are not personally acquainted with the facts? A. No, but our organizer has personally talked to these gentlemen.

Q. I want to have two or three points made clear. You say that the cooperatives buy two and a half cents cheaper? A. Yes.

Q. And you assume that they pass that on to the farmer. Is there any objection to the cooperatives getting gasoline and oil two and a half cents cheaper for the benefit of the producer? A. There is this objection from our standpoint, and I am speaking as a retailer myself, that when I am not allowed to buy gasoline at a certain price without certain equipment, I cannot see where any form of combine should be allowed to be created that can have that privilege over the independent; and in this case, where the cooperative has no bulk facilities, through their massive purchasing power they are obtaining that privilege where the independent dealer if he paid the like amount would not obtain it.

Q. Would you say it would be due to the fact that the cooperatives do buy large quantities through organizations? A. Yes.

Q. And they get a cheaper price? A. Yes.

Q. What do you mean by the word "pressure"? Is that because they have greater buying power? A. Absolutely.

BY MR. MILLIKEN:

Q. I suppose it would not make a difference to the cooperatives, they would still be able to buy two and a half cents a gallon cheaper if they paid income tax?

A. I suppose they would.

Q. And your complaint really is with the oil companies that sell to them at two and a half cents less. You do not blame the cooperatives for buying it? A. Absolutely not; the complaint is not with the oil companies. I would put it this way. If one hundred independent retailers were to set up a purchasing department which had a like purchasing power, through the quantity which they would buy, we would be forced to set up a company or partnership, and any profits accruing to the purchasing department would be taxable and any profits after taxation was paid, which might be paid to us, would again be taxable.

Q. But is not this your complaint: that the cooperatives because they are not taxed, are buying this oil cheaper when you admit that as a matter of fact it is not because they are free from taxation that they buy oil cheaper but because they buy in large quantities. If they were taxed, the only difference, you would say, would be that they would not be spreading so rapidly? A. They would not be spreading so rapidly and would be on an equal competitive basis.

Q. Have you proof of the statement you make at the bottom of page five: "We find that without further investment on the part of the shareholders they have been able to encroach on other branches of the automotive industry."

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A. I think the answer to that is this. I was in the room the other day when Mr. Chown gave his brief and he stated it himself.

Q. That is where you got it? A. Yes.

BY MR. ELLIOTT:

Q. When was your Association formed? A. In 1935.

Q. What is the significance of the term "independent garage and service operators"? A. Well, the independent is the man who is running his own premises or owns his own premises and runs his business.

Q. As distinct from cases where the pump is owned by an oil company? A. It may be owned by a company but the man runs the premises and operates and pays expenses. There are not more than ten or fifteen cases in Manitoba where the retail outlet is operated by an oil company.

Q. But the distinction is between the outlet being operated by the oil company and the outlet being operated by someone other than the oil company? A. Yes.

Q. On page four you mention the spreads between various prices. Who fixes those spreads? A. When I mentioned spreads --

Q. This applies to Winnipeg. Who fixes them?

A. As far as the retailer is concerned, he may sell at any price he likes. As to the spread from the basic to the tank wagon and the barrel lot prices, I could not tell you who fixes them. They are just in operation. I am not in the wholesale business and could not say who makes their prices, but the retail price is not fixed by anybody in Manitoba except the Wartime Prices and Trade Board at the basic ceiling.

Q. But the other spreads are quite general?

A. Yes. They might vary from one zone to another but I

think it would be practically the same.

Q. On page nine you say: "The avowed purpose of the cooperative movement, in its inception, was to combat the monopolistic tendencies of large vested interests." Was one of those monopolistic tendencies the tendency to charge uniformly high prices? A. I could not say whether it was to charge uniformly high prices.

Q. Would you think it unreasonable to include that among the tendencies to combat which the cooperative was formed? A. If you charge a man a dollar for a fifty cent article and you are tax-free and can give him back fifty cents it does not matter much what you charge him originally.

Q. Do you subscribe to the sentence at the top of page nine? You helped to prepare the brief. A. Yes, I think I do.

Q. You have not in mind, among the monopolistic tendencies, the tendency to combine in order to keep up prices? A. No, I have not. I think I had in mind the same thing that Mr. Chown had in mind when he said they were against monopolistic tendencies. So he said the other day in his brief.

BY MR. ARNASON:

Q. Speaking of monopolistic tendencies, have you any information which would indicate the percentage of petroleum products distributed by cooperatives in Manitoba?

A. Not in gallons; I have not. But throughout the last ten years, and especially throughout the last five years, when conditions have been good the spread of cooperatives has been accelerated.

Q. Would you say that was due to increase in business or in part to the upswing in business conditions generally?

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A. I could not say exactly, because there have been more cooperatives opened during the last five years, and perhaps the upswing in business may have offered them the opportunity to form cooperatives. I have some statistics from the Manitoba government indicating the numbers incorporated over a period of years. The figures I am about to give were obtained from the office of the Provincial Secretary in Winnipeg. At December 31, 1944 there were in active operation in Manitoba 113 consumer cooperatives. The years of incorporation, with the numbers incorporated, are:

1918	1
1919	2
1920	1
1921	1
1927	2
1928	13
1929	15
1930	3
1931	5
1932	2
1935	1
1936	2
1937	2
1938	8
1939	7
1940	12
1941	12
1942	7
1943	2
1944	15

There were none incorporated in the following years: 1922; 1923; 1924; 1925; 1926; 1933; 1934. These figures that I have given you seem to bear out the complaint of the independents that in years of depression and poor crop yields the people do not start consumer cooperatives. Of the 113 cooperatives incorporated in Manitoba, eighty-three were incorporated during good years.

Q. Do you know of many petroleum products retail outlets purchased by cooperatives during the last two or three years, having regard to the restrictions imposed by

the Dominion Oil Controller? A. No; I could not give that information. The general practice of the cooperative is to take a warehouse and sell first in barrel lots to farmers and later go into the retail end of it.

Q. You are aware of the restrictions with respect to the establishment of new retail outlets under existing conditions? A. Yes.

GEORGES PREFONTAINE

General Manager and Secretary-Treasurer, Manitoba Co-operative Cheese Producers, having been duly sworn, testified as follows.

BY MR. SCARTH:

Q. You are the General Manager and Secretary-Treasurer of the Manitoba Co-operative Cheese Producers? A. I am a director.

Q. And you prepared the brief. You are aware of its contents? A. Yes.

Q. And they are true to the best of your knowledge? A. Yes.

Q. Will you read the brief? A. I have submitted a schedule to the brief, which I will now read:

"Conditions Before Cheese Co-operatives Organized

"Cheese making in Manitoba prior to 1929 was practically negligible, and was confined to two factories in the southeast portion of the province.

"The dairy farmers of that section experienced great difficulty in selling their milk -- transportation to the Winnipeg fluid milk market was difficult and only those close by could deliver to the then existing cheese factories. The dairymen were therefore faced with the problem of finding a solution to their marketing difficulties or

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disposing of their herds. About 1933, the price of butter-fat was ranging from 13 cents to 15 cents per pound for top grade if a sale could be made. Unfortunately, due to transportation this grade was hard to realize and only approximately 9 cents per pound was actually received in many cases.

"Cheese Co-operatives were born in desperation in the depression period on a non profit basis.

"Organization

"Several meetings were held in some of the communities affected by these serious conditions and finally producers realized that the production of milk was the main source of income and that they had to solve their own problem.

"They decided to form cooperatives and the first co-operative cheese factory was created in 1932. Like the majority of these now existing cheese cooperatives, it was incorporated under what is known as Part 7 of 'The Companies Act' 1940 R.S.M. Chapter 36.

"Almost entirely the cooperatives are situated in the type of country suitable for mixed farming rather than grain farming. And there are twenty-one of them.

"At the time the cheese cooperatives were organized, there were only two privately owned cheese factories and they were small ones in the portion of Manitoba where the cooperatives have developed, and for that matter cheese manufacturing in Manitoba by private industry at that time was negligible.

"Private capital or private industry offered no solution and no help. Generally speaking, farmers had no credit. Perhaps I can best illustrate the situation at that time by quoting from the reply of Kleefold Co-

operative Dairy Limited to a questionnaire sent out in an effort to gather information for this Commission:

'Our society was organized in 1933 in the middle of the depression years and I think we owe a lot to the men who had the courage to organize and spend money (at a time when drought, grasshoppers and low prices seemed that they would drive every farmer from his farm) in the hope that they would be able to improve this condition somewhat by building a cheese factory through which they hoped to be able to get more for their milk, and they did too, and I think they have achieved a lot more than they had in their minds at that time, or did dare to hope for. It never was our intention to make money with the cheese factory -- the only object is to get the most out of our milk.'

"Cooperatives got their start as a result of this rather nondescript milk marketing system which was most discouraging to the dairy farming industry.

"Schedule 1 hereto attached is showing the names and addresses and the date of establishment of local co-operatives.

"Capital Structure - Locals

"Local cooperatives are on a share capital basis and shares sell for \$10 apiece and in most cases members paid for at least one share in cash. Additional shares were either paid for in cash or deducted from milk deliveries. Some paid interest on shares, others didn't.

"It is worthy of mention that many members have purchased additional capital stock to help improve the buildings or acquire additional equipment.

"The amount subscribed for the average cooperative

cheese factory ranges from \$1,000 to \$3,000.

"Membership - Locals

"Membership in these local cooperatives is open to anyone subject to the approval of the board of directors composed of seven directors elected at the annual meeting. At all general meetings a shareholder has one vote regardless of the number of shares held.

"Methods of Doing Business - Locals

"Local cooperatives do business on a non-profit basis. Most factories deduct a flat charge of so much per pound of cheese to cover manufacturing costs. All of the monies received, save this deduction are disbursed to the farmer. The present general charge is usually 3 cents per pound. It is figured so closely that there is not much room for a surplus. If there should be any surplus left, over and above expenses, it is allocated to the shippers in proportion to their milk deliveries.

"Centralized Selling

"If the creation of local cheese cooperatives solved to some extent the problem of dairy farmers, the factories soon realized that with the limited buyers in the city of Winnipeg, they had to find ways and means of disposing of their cheese output.

"They soon realized that while the establishment of local cooperative cheese factories had improved the dairy-men's condition, each factory by competitive selling was depressing the market.

"In 1934 the Cheese Manufacturers Association was formed, which by joint meetings with buyers tried to establish a uniform price for Manitoba cheddar cheese. No firm agreement was obtained and the Manitoba Cheese

Manufacturers were never able to get for their cheese the equal of the weekly price declared by the eastern cheese boards, particularly during the period of heavy production.

"In 1941, the local cooperatives formed a central cooperative, known as the Manitoba Co-operative Cheese Producers, to act principally as a selling agency.

"Membership and Operation - Central

"This central organization has no capital structure. Membership is open to any factory engaged in the manufacture or processing of cheese or dairy products subject to acceptance by the board of directors. The membership fee is One Dollar. One member has one vote.

"The affairs of the association are managed by a board of seven directors elected by the shareholders at a general meeting. These directors carry on the business of the Central Co-operative through a manager appointed by them.

"As previously mentioned, the selling agency or central cooperative whose corporation name is Manitoba Co-operative Cheese Producers has no assets. Its agreement with the local cooperatives is that it shall deduct a sufficient amount to cover the expenses including storage in a cold storage plant, where the cheese is delivered by the local cooperatives, and where it remains until sold by the selling agency. In addition to storage expenses, there are small selling expenses, and at the present time, cost of operation is taken care of by a deduction at the source of approximately one-quarter cent per pound. During the past four years the deduction at the source has more than covered the expenses and a small operating surplus has been registered.

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"Each year the ascertained surplus has been divided and allocated to the member cooperatives in proportion to the volume of business contributed by each. Although the allocation has been made by the general meeting each year, no distribution has as yet been effected; the reason being as follows:

"When the selling cooperative first commenced business, it had no available funds with which to pay the local cooperatives for cheese deliveries until collection had been made. This meant at least two weeks delay.

"As decided at the annual meeting, directors have retained, as yet, the above allocated funds and as a result of this small working capital, are in a position to pay the local cooperatives weekly for their deliveries.

"It is likely that at the 1945 annual meeting distribution will be authorized of some of the allocations previously made.

"Objectives

- (1) "The locals were organized individually and spontaneously to create a market for milk.
- (2) "To realize a living price for milk.
- (3) "The central was organized to market the cheese production to the best advantage.
- (4) "To improve the quality of Manitoba cheddar cheese.

"Accomplishments

(1) Production:

"Proof that a good market has been created for milk in this area is shown by the remarkable increase in cheese production since the first cooperative cheese factory was organized in 1932. Cheese production has increased as follows:

"Prior to cooperatives: 1931 approximately	500,000 lbs
1937 "	3,000,000 lbs
1940 "	4,500,000 lbs
1942 "	5,000,000 lbs
1944 "	4,000,000 lbs

"(2) Returns:

"Whilst much of the increase in the price of dairy products is due unfortunately to the existing conflict, we feel that a considerable percentage of the increase of the price of fluid milk and cream is due to the influence of the cooperative cheese factories.

"Butterfat prices have never gone back to the rock bottom price of 13 cents per pound paid prior to the formation of the cheese cooperatives. Today cheese milk shippers are realizing about 51 cents per pound of butterfat for their milk.

"In 1933 cream shippers received between 45 cents and 40 cents per 100 pounds of milk. After some of the factories were in operation for less than a year, producers were receiving 75 cents to 80 cents per 100 pounds, a substantial increase.

"(3) Quality

"Until recent years, the provinces of Ontario and Quebec were recognized by the trade as the only producers of good cheddar cheese. Since 1937 our efforts to improve the quality of our product have proven most encouraging and the following federal report on Manitoba cheese gradings is tangible proof:

<u>Year</u>	<u>Per Cent First Grade</u>
1940	89.93%
1941	92.87
1942	93.12
1943	93.34

"You will note the increase in quality due to educational work and efforts of cooperation.

"(4) Decentralization:

"The prosperity of a people is not measured by the height of smoke stacks of manufacturing plants or the imposing fronts of the business structures in the main centres, but lies in the general well being of the common even the most remote and humblest homes in the country side. Our cheese factories have improved the welfare of our farmers and we feel they should be encouraged and cited as an example to other rural communities.

"(b) Central Selling:

"Before the central cooperative was organized, Manitoba cheese invariably sold at considerably less than the eastern cheese. The difference during the heavy production was as great as one cent to two cents per pound for the same grade. Since the competitive selling of various cooperative factories has been removed by marketing through a central organization, this differential has been eliminated. Actually, at times, Manitoba has enjoyed the novel experience of a higher price than the eastern product.

"Competition

"In our opinion, there is no other person or corporation in the province of Manitoba performing the same functions as this central cooperative. In so far as it is a selling agency it superseded each of its member cooperatives who used to perform this task themselves. No other bodies ever attempted these duties.

"Conclusion

"The cheese factories were organized of necessity during the depth of the depression. Subsequently, in

order to eliminate competitive cooperative selling, the central selling agency was organized.

"Both the locals and central body are organized on a non profit basis operating solely for the benefit of the producer."

Document filed with brief:

Schedule "A" - Names and addresses of
cheese cooperatives.

.....

BY MR. PARKER:

Q. Will you look at page two of the brief where you are quoting from the letter. I suppose you adopt as your own the sentiments expressed in those words you have quoted there? You put that forward as your own belief?

A. Yes.

Q. You say: "It never was our intention to make money with the cheese factory -- the only object is to get the most out of our milk." What is the difference between the two -- making money and getting more for your milk?

A. They made money, getting a little higher price using the cheese factory.

Q. That is a profit? A. It is surplus money.

Q. If they sell milk for considerably more?

A. The people were away from the station, fourteen miles, had no road and couldn't make a living on their milk.

Q. If a man produces something at a cost of 20 cents and he can sell it for 25 cents he makes 5 cents, and if he can increase that to 30 cents, that is an additional 5 cents. A. Yes.

Q. On page three you say: "It is worthy of mention that many members have purchased additional capital stock

to help improving the buildings or acquiring additional equipment." Is that arranged by deductions? How is the money raised to enable members to get additional capital stock? A. They bought new shares. Some factories put in new separators and they bought additional shares.

Q. How did the men who bought the shares get the money to buy them? Was it out of capital they had or out of deductions? A. In most cases, deductions from milk cheques.

"In the next paragraph you say: "Membership in these local coöperatives is open to anyone subject to the approval of the board of directors composed of seven directors elected at the annual meeting." Does everyone who ships in milk automatically become a member, or what does he have to do? A. Make application to become a member, and in our case -- I don't know about all cases -- they are admitted on a motion at a meeting of the board of directors, adopting them as members. But all shippers are members.

Q. All shippers are members? A. Yes, because they all apply for membership.

Q. Does the board ever make them members before they apply? A. No, not that I know of.

Q. This central organization is not an incorporated body? A. Yes, it is.

Q. Incorporated under what? I thought it was an unincorporated body. A. We have the by-laws here. We have here the general rules and the memorandum. It was incorporated.

Q. I am talking about the selling agency. A. Yes.

Q. I quote from page four of your brief: "As

previously mentioned, the selling agency or central co-operative whose corporation name is Manitoba Co-operative Cheese Producers has no assets. Its agreement with the local cooperative is that it shall deduct a sufficient amount to cover the expenses including storage in a cold storage plant.", and so on. It is incorporated?

A. Yes.

Q. You have attached the articles of association of the central selling agency? A. Yes.

Q. You have not attached a copy of the memorandum?

A. It is practically the same.

Q. Just changed to suit the circumstances? A. Yes.

Q. And I take it from what you say on page five about the allocation of surpluses that you have very little in the way of surpluses. A. Very little. I could give the St. Pierre local surplus. In 1941 we had a surplus of \$234.78, and in 1942, \$92.

Q. Allocation from the central to the local? A. Yes.

Q. What does your own local pay to its members?

A. We paid out in 1941 and 1942 one cent a pound butter-fat.

Q. But how much did you hold back for working capital? A. We held back only for buildings we bought.

Q. How much did you hold back altogether? A. It depends on the amount of milk we have.

Q. How much have you held back which you have used for working capital, now represented by buildings, cheese factory and that sort of thing? A. We bought our buildings. They cost about \$9,000.

Q. And equipment? A. Buildings and equipment.

Q. And everything -- \$9,000? A. Yes.

Q. All paid for? A. Yes.

Q. Look at page six. You set out some figures in regard to the improved quality of the cheese. Could not that improvement in quality have been brought about just as well if you had formed a joint stock company and given it the same attention? A. Yes.

Q. You do not claim that there is any particular virtue in cooperatives in the making of butter and cheese, any more than there is in any other company, provided those in charge give their attention to it? A. No.

Q. The cheese that you make you send to the central agency to sell? A. Yes.

Q. On what terms? A. We send our cheese to the cold storage and they sell it for us and they deduct expenses. That is all that is done.

Q. You have a written contract between the local and the central setting forth the terms on which they handle it? A. Yes. At the annual meeting we make a certain agreement that certain moneys are to be deducted, approximately a quarter of a cent.

Q. When you send your cheese to the central agency to be sold by them under what terms do you direct them to sell -- to get the best price they can and give you what is left over? A. They get the best price they can. It is all sold in one week and the average paid to each factory according to weight.

Q. You do not necessarily get the exact return on the cheese made in your particular factory? A. No.

Q. The cheese from all the factories is pooled?
A. Yes.

Q. And each factory gets the average of all? A. Yes, every week.

Q. And they charge you sufficient so that they have something left over after paying expenses? A. We have no capital at all.

Q. I am not asking you about capital. The central charges its locals -- A. Expenses.

Q. It charges sufficient so that after expenses are defrayed there is a little balance left over? A. Yes.

THE CHAIRMAN: Some of the local associations pay interest on shares and others do not?

THE WITNESS: Yes.

THE CHAIRMAN: Can you tell me the reason for the difference?

THE WITNESS: In our case we pay interest on our shares because when we started the farmers were hard up--in 1932 and 1933--and some of the townspeople bought shares to help make capital.

THE CHAIRMAN: You still pay interest on your shares?

THE WITNESS: Yes.

THE CHAIRMAN: All locals do not?

THE WITNESS: Most locals do not.

BY MR. PARKER:

Q. Does the central association dispose of cheese which it receives from anybody else but cooperative associations? A. The only cheese sold outside a cooperative was some cheese bought by the government in 1941 on account of some sickness being in one district -- typhoid fever. The government bought some cheese from that factory and put it in cold storage and asked the agency to sell it in three months.

Q. In your list of cooperative cheese factories attached to the brief there are two dairies that have not

the word cooperative as part of their name. I was wondering if they were non-cooperative. A. What are the names?

Q. There is the Landmard Dairy and the Otterburne Cheese Factory. A. The Landmard is a cooperative and the other building is owned by an individual. The cooperative association pays so much for making cheese and they sell the cheese cooperatively. They are a member of the central selling agency.

Q. The Otterburne is not a cooperative? A. Yes, it is; but the building in which they make the cheese belongs to a private individual. The cooperative association has nothing to do with milk but just manufactures cheese.

Q. On behalf of the central? A. On behalf of the farmers of the district.

Q. And the same is true of the Landmard? A. The Landmard is a true cooperative.

Q. Then that is an error? A. Yes.

Q. Are you sure you are right on that, that they do not handle anybody else's cheese? From your statement, this central agency handles a large amount of cheese and a large amount of money? A. Yes.

Q. Half a million dollars. Do they send out to each local full detailed statements each year? A. Every month they send us a statement of the cheese that was sent in and sold for each factory.

Q. Do they send you an annual statement of all operations on behalf of all associations? A. Yes.

Q. Have you some of these? A. No.

Q. Could you get for us copies of annual statements for the last five or six years? A. We have been operating only three years.

Q. Well, for the three years? A. Yes.

MR. SCARTH: For the use of the Commission.

BY MR. VAUGHAN:

Q. There is a falling off in the production of cheese?
A. Yes.

Q. You produced in 1944 less than in 1940? A. Yes.

Q. I suppose there is a reason? A. It is due to the farmers selling cows because the boys went to the army and they cannot milk so many cows. The labour is short. In our district the government tested the cows in 1942 and killed 125. The farmers are raising a few calves now and trying to reestablish their herds.

BY MR. ARNASON:

Q. In view of the situation to which you have alluded, would you say that there would be a tendency for such conditions to become more acute on the farm where milk is shipped to the cheese factory, as compared with the farm where the producer ships cream? A. I would not say. The farmer ships cream and he skims the milk at home and the truck comes and picks up the cream.

Q. Would it make the labour problem more acute?
A. Yes.

MR. NADEAU: Je vous remercie, M. Prefontaine, de votre excellente presentation.

MR. PARKER: There is a short brief filed with the Registrar a day or two ago on behalf of the Swan River Board of Trade. I am told that no one wishes to appear to read it, but they would like to present it. It has not yet been given a number.

MR. THOMSON: I was asked to present this brief by the Swan River Board of Trade, but I have had no part in

the preparation of it and I could not be examined on it. If you wish, I can read it.

THE CHAIRMAN: It is very reminiscent of another brief that has been presented. It is almost in the same language. Do you wish to read it?

MR. THOMSON: I did not know of any other.

THE CHAIRMAN: This reminds us of something we have heard quite recently. However, if you wish to go ahead we will listen to it.

MR. THOMSON: I have no desire to read the brief if you have already heard the same thing.

THE CHAIRMAN: You had better continue.

MR. THOMSON: Was it presented here -- the one that is similar to this?

THE CHAIRMAN: The two are not identical, but very nearly so. The conclusions are word for word the same as those contained in the brief submitted on behalf of the Retail Merchant's Association earlier in the day.

MR. PARKER: Somebody suggested that the copyright laws were violated.

THE CHAIRMAN: I think we can take it as already covered. There are some other matters to be disposed of before we conclude the proceedings. Mr. Macdonald, the chartered accountant who gave certain figures, undertook to answer later any questions that might be asked him. So far as the Commission are concerned, they have no questions to ask. If there are other interests present who wish to examine Mr. Macdonald they can be given the opportunity.

MR. SCARTH: I am afraid he has gone.

MR. PARKER: We can consider that case closed. There are only two briefs left. One is a submission by Food Distributors of Manitoba. Mr. Moore, the Secretary, said

he would be here at four o'clock but he has not yet come. In the meantime we might take up the brief that has been filed by the C.C.F., Manitoba section.

MR. MARSHALL: I am appearing in support of the brief, Mr. Chairman. A letter was sent to the Registrar, Major Woods.

JOHN MARSHALL

C.C.F. (Manitoba Section)
having been duly sworn,
testified as follows.

BY MR. PARKER:

Q. Where do you reside? A. In the city of Winnipeg.

Q. Have you been here for some years? A. Ten months.

Q. Where were you previous to that? A. I worked for the American government on the Alaska highway. I am a native of Saskatchewan.

Q. Did you prepare this brief in the name of the C.C.F.? A. Yes.

Q. By what authority do you present it? A. On the authority of the provincial executive of the Manitoba C.C.F.

THE CHAIRMAN: May I enquire what interest the C.C.F. has in this investigation?

THE WITNESS: As a political party the C.C.F. is not interested in this investigation, Mr. Chairman, but it is interested independently in the cooperative movement.

THE CHAIRMAN: Has it been asked by the cooperatives?

THE WITNESS: No. I would like to make that absolutely clear. We were asked by none of the cooperatives in Manitoba or in any other province to prepare or present this brief. It was done on our own initiative entirely.

THE CHAIRMAN: On those conditions you may go ahead. I have not read the brief but I hope there is no political propaganda in it.

THE WITNESS: As far as I am concerned, there is no propaganda, but there may be a difference of opinion. The brief reads:

"Encouragement of the Co-operative Movement has become a matter of social policy, not only nationally, but internationally. There is wide agreement, if not unanimity, among the democratic nations that cooperatives have a large and growing part to play in the economy of the future. The league of Nations showed a consistent interest in the Co-operative Movement, and the International Labor Office maintains a cooperative service which has made member nations increasingly aware of the economic and social values of the movement. At various times, international conferences have recommended the encouragement of co-operatives as a common social policy. One of the most interesting of these was the Second Inter-American Conference of Agriculture, held in Mexico City in 1942 and attended by delegations from the twenty-one Republics of the western hemisphere. This conference stressed the important part cooperative organizations can play in improving economic and social conditions in agriculture. It recommended 'that the countries of America encourage the constitution of agricultural producer associations. The cooperative is recommended as the basic type.' (The Co-operative Movement in the Americas, p. 58). Only through a technicality was Canada not represented at the conference; though not a republic, she is one of the 'countries of America', and by implication a certain international obligation rests upon her, to encourage

cooperative development.

"Hot Springs Resolution on Cooperatives."

"Canada, however, was present at the United Nations Conference on Food and Agriculture, which met at Hot Springs, Virginia, in May and June of 1943. This conference of experts, perhaps the most significant of all international conferences, laid the basis for international collaboration towards an expanding economy of abundance, which would guarantee freedom from want to all peoples of the world. This is in the spirit of the United Nations Declaration of January 1, 1942, which endorsed the Atlantic Charter, with its promise of 'freedom from fear and want'. As one of the twenty-six (now thirty-five) signatories to the United Nations Declaration, and as one of the forty-four signatories to the Declaration and Resolutions of the Hot Springs Food Conference, Canada has an inescapable international obligation with respect to the co-operative movement. One of the most notable resolutions of the Hot Springs Conference was that which recognized the social and economic advantages of cooperative organizations in the production and distribution of foodstuffs, and recommended active assistance to and encouragement of the cooperative movement as a common policy of governments, nationally and internationally.

"The Hot Springs resolution is worth quoting in full, because it shows how specific the agreement among nations has become on the essentials of an international policy for the promotion of cooperatives, and because it has a direct bearing upon the subject of government taxation of cooperative savings. We quote:

'XVII. CO-OPERATIVE MOVEMENTS.

Whereas:

1. 'The cooperative movement has been of very great importance in many countries, both to urban and rural populations, especially in agricultural districts where farming is based on small units and in urban areas of low-income families;
2. 'The proper functioning of cooperative societies may facilitate adjustments of agricultural production and distribution, as members have confidence in the recommendations and guidance of their own cooperative organizations, which they know operate in the interest of their members and of society in general;
3. 'The democratic control and educational programs, which are features of the cooperative movement, can play a vital part in the training of good democratic citizens, and assist in inducing a sound conception of economic matters;

'The United Nations Conference on Food and Agriculture recommends:

1. 'That, in order to make it possible for people to help themselves in lowering costs of production and costs of distribution and marketing:

(a) 'All countries study the possibilities of the further establishment of producer and consumer cooperative societies in order to render necessary production, marketing, purchasing, finance and other services;

(b) 'Each nation examine its laws, regulations, and institutions to determine if legal or institutional obstacles to cooperative development exist, in order to make desirable adjustments;

(c) 'Full information as to the present development of cooperatives in different countries be made available through the permanent organization recommended in

Resolution II.'

"Two conclusions must be drawn from this resolution.

"The first is that there is international recognition of the reason for which cooperatives exist, that is, 'to make it possible for people to help themselves in lowering costs of production and costs of distribution and marketing.' It is commonly recognized and internationally established, then, that the basic economic function of co-operatives is to effect savings for their members. Were these savings to be taxed away, the cooperative would cease to function as a cooperative, would cease to be a cooperative in any effective sense. But it is **cooperatives**, as cooperatives, the promotion of which the United Nations Conference recommends.

"The second conclusion is that, if to effect savings is the function of cooperatives, and the nations are asked to adjust (that is remove) 'legal or institutional obstacles to cooperative development', the taxation of co-operative savings is decidedly opposed to the spirit, if not the letter, of the Hot Springs agreement. For such taxation is the most obvious and the most effective 'legal obstacle' to the cooperative movement. If such taxation is imposed in Canada, it will be a betrayal of trust, and the repudiation of an essential international obligation.

"For these fundamental reasons, the CCF (Manitoba Section) is of the opinion that the present exemption of cooperatives from corporation income tax and excess profits tax should be continued (with the present stipulation that cooperatives must not do business with more than 20 per cent of non-members).

"A Cooperative is not just another business

"The argument against the present exemption usually

takes the form that the cooperatives, being a commercial venture like any other business, should be taxed in exactly the same way. The assumption is entirely unwarranted. A cooperative organization differs from an ordinary business in at least four ways:

"First, it differs in the purpose for which it is run. The primary purpose for which an ordinary business is run is to make profits for those who own it. A cooperative is in business to distribute, market or produce goods, or provide services, for its member-owners to use themselves. Its primary purpose is to render a service at lowest cost, not to make profits (in any orthodox sense).

"Second, it differs in the method by which it is controlled. In private business, in its usual corporate form, each share of stock has a vote; one man owning a thousand shares has a thousand votes. Thus a few men can control a large corporation. In a cooperative, each member has one vote, and only one, no matter how much stock he may own (and the amount he may own is usually limited). Therefore decisions are made by majority vote in a democratic manner.

"Third, it differs in the way its earnings are distributed. In private business, the profits are distributed to the shareholders, in proportion to the number of shares each owns. Every effort is made to make profits as high as possible. A cooperative limits interest on its stock to a minimum legal rate (say 5 per cent). All distributions of earnings in addition to interest payments are made as a rebate to members, in proportion to their patronage of the cooperative (in sales or purchases).

"Fourth, it differs in the manner of admitting new customers or 'partners'. An ordinary business usually

issues new stock to new shareholders only when it is thought that the extra capital will sooner or later increase the rate of profit. In general, the fewer partners to divide profits, the better. And so far as new 'owning' partners are concerned, most business ventures are closed corporations. A cooperative, on the contrary, always welcomes new member-owners who will use its services. Expansion is in the interest of all. In general, the more 'partners' to decrease the cost of service, the better. And new members are admitted on a complete equality of status (one man, one vote) with old members.

"These facts are forgotten by those who want to tax the so-called 'profits' of cooperative enterprises. A cooperative does not make profits in the usual sense. Any surplus over expenses shown by a cooperative is either returned to the members in proportion to their patronage of the cooperative or is reinvested in the enterprise. In the one case, the member gets, not a 'dividend' in the ordinary commercial sense but a deferred rebate on his purchases from or sales to the cooperative. In the other case, the surplus becomes part of the members' capital, and any earnings from it are again distributed as deferred rebates or again reinvested.

"The criterion for application of personal income tax to cooperative rebates is whether or not the rebate is a 'saving' or 'income'. In the case of a consumer's cooperative, the rebate is obviously a 'saving' made on previous purchases; not being income, it is not taxable. In the case of a marketing (usually called a producer's) cooperative, the rebate is a contribution to the farmer's income, and the net income is taxable. This applies not only to rebates on sales of produce, but to rebates on

purchases of essential equipment and supplies which reduce his costs of operation.

"There is general agreement on this distinction, and on the differentiation of taxing policy it involves. The dispute arises with respect, not to personal income taxes, but to corporation income and excess profits taxes; in other words, with respect to what the government should or should not tax in the hands of the cooperative.

"The extreme opponents of cooperatives would have the government tax savings away before they are distributed to members; that is, prevent any rebates being made at all. Though this may be the hidden purpose of some protagonists of 'tax equality', we may assume it is not the prevailing point of view.

"Real dispute is over 'Undistributed Savings'.

"The real point of dispute is over what may be called the reserves set aside by cooperatives. Here a legal distinction is made between reserves that are allocated (that is, to the members of the society) and reserves that are unallocated (that is, set aside for capital expansion, education, etc.). Actually, there is no valid distinction here, legal or otherwise. Whether in legal fiction the reserves are individually allocated, or collectively retained in a lump sum, they are the property of the members, to be disposed of as they decide by democratic vote. Reserves, or undistributed savings, constitute an undivided surplus that is the property of the individual members in exactly the same way as the distributed savings have already become, and should not be subject to corporation income tax or to excess profits tax.

"The claim that this gives cooperative an unfair

advantage over 'private competitors' is not justified, since, as we have shown, a cooperative is not just another business. It operates from the beginning on an entirely different set of principles, according to entirely different rules, which are legally recognized in all democratic countries. Therefore there is no 'competition' in the strict sense, fair or unfair, between cooperatives and private corporations. If a cooperative takes customers away from a private company, that is not because the cooperative uses unfair methods, but because more people see the value in another way of business that is everywhere recognized as fair and legal. If the cooperative proves to be a superior type of business, the advantage is inherent in its basic principles, not in its methods of operation, which are merely applications of principle.

"The assumption throughout is that only bona fide, legitimate cooperatives are included in the term 'cooperative'. At present, some non-cooperative or semi-cooperative organizations slip through the meshes of the law, and enjoy the privileges of cooperatives without the responsibilities of cooperatives toward their members. This is one respect in which the present legislation must be drastically revised, to ensure that only those organizations which meet the basic requirements of a cooperative are allowed the privilege of incorporating as cooperatives. This will eliminate one source of confusion and dispute as to whether for taxation purposes, cooperatives should be placed in the same category as other businesses.

"Experience of England and U.S.A.

"The experience of England and U.S.A. with respect to the taxation of undistributed savings should be

enlightening. The cooperative movement in England until 1933 enjoyed all the regular privileges of legitimate co-operatives. No corporation income tax was paid. This was true (until the war) of most European countries. But in 1933, among other measures of a reactionary nature, the National Government imposed corporation income tax on undistributed savings. This decision was strenuously opposed by cooperators and friends of the movement. The co-operatives in England have not accepted this tax, and expect to regain their legitimate privileges from the first friendly government. There is no reason why we in Canada should accept as the basis of our policy the precedent established as one element of a reactionary social policy by the Tory majority in the government of the United Kingdom.

"In a series of decisions, the U. S. Tax Court has upheld the right of cooperatives to tax exemption on their 'undivided savings'. The stipulations is that the records of the cooperative must show that the reserves belong to the members, and that articles of incorporation and by-laws must show that it is under a direct liability to refund these sums to them, if desired by the members. In the famous Midland case, the cooperative won because it was proved that Midland assured the member-owners of their right to demand the return of overcharges in cash (if they desired cash). This right of member-owners is automatically supplied by any bona fide cooperative, properly incorporated.

"One of the latest decisions concerned the Milk Producers Association of central California, and the reasons given are interesting: 'The amounts in question were credited to the general retains account in terms of

dollars and cents, and accurate records were kept for each member, showing the amount of butterfat delivered by each member to the corporation. Therefore it required only a mathematical computation to determine at any time the interest of each individual member in the general retains account.' (The Manitoba Co-operator, Jan. 1, 1945.)

"In other words, even unallocated reserves, in the strictest legal sense, are tax-free if accurate records are kept of the business done with each member. In a similar way, the wheat pools of western Canada, which keep accurate records of the deliveries of wheat made by each farmer-member, should be exempt from taxation on their reserves, whether such reserves are individually allocated or set aside for general expansion, educational purposes, or any other disposition collectively decided by a democratic vote of the members.

"Nature and Purposes of Modern Taxation

"We have argued that the position taken by those who oppose the right of cooperatives to tax exemption is based on a complete misconception of the nature and purposes of cooperative organizations. It should also be added that it is based on a complete misconception of the nature and purposes of modern taxation.

"The whole theory of taxation in democratic societies is that taxes are a method of redistributing national income. Surpluses of income or of profits are returned to the people, by way of essential services, through the agency of the state. This becomes increasingly true as the state assumes more and more responsibility for social security. But taxes are only a means to an end; if the same end is served as well by another means, to that

extent taxation is unnecessary. With respect to redistribution of income, the cooperatives represent another way of achieving the same end, directly, and without the agency of the state. Business men who argue against the tax exemptions of cooperatives, on grounds that their own businesses pay taxes, are actually opposing the whole concept of redistribution of purchasing power. They are thus sabotaging a fundamental instrument of social policy in modern society. The logic of their position is revealed by those extremists who claim that private business should not be taxed at all. The CCF position is that redistribution of purchasing power is necessary and desirable, and that the cooperatives are an efficient and democratic instrument to that end.

"The charge that cooperatives are interested only in their own members is absurd, because, first, cooperatives are interested also in performing a social service by democratic means; and, second, because their membership is not limited, but is open to all on terms of equality.

"Community Services Performed by Cooperatives

"A cooperative in any community becomes a public service to the community, to the extent that the community supports it. A cooperative in such a position is not only free to render special community services, but has every motivation and reason for doing so. This fact is proven by the long record of community services which the cooperative movement has to its credit. Investment in a community project is one method of distributing the dividends of members. The decision is made democratically by the members themselves that, instead of retaining their dividends individually, they will pool them for use

in a certain project. These projects have included cafeterias, community centres, land improvement, housing schemes, medical benefits, health clinics, educational projects, folk schools, youth programs, to mention only a few.

"A most instructive example is afforded by the cooperative at Davidson, Saskatchewan. During the depression, this cooperative initiated several community projects. It took over the livery barn so that children driving to school could have a place to put the horses. When some of its members went on relief it started an emergency benefit scheme. When the local tinsmith went broke, it took over the shop, paid him a living wage, and ran the shop for its members. Its latest scheme, now being worked out is to get a doctor, a dentist, and two or three nurses, to start a medical centre. The members are willing to convert their patronage dividends into 'standby services' of this nature. Their pooled resources will provide comprehensive health services, mainly preventive. (Winnipeg Tribune, Feb. 1, 1945).

"Two observations should be made here. One is that, if taxed, this cooperative would not be able to provide such a service; while conversely, the cooperative's initiative relieves governments of the necessity of providing such a service to the community. The province of Saskatchewan is now planning a complete system of preventive health services. The Davidson scheme presumably will be in operation before the province can put such a system into effect; but the Davidson scheme can be integrated with the provincial system when it does come. There is no necessity for conflict, and a wise government, on the contrary, welcomes such expressions of local

initiative, which decentralize administration.

"This is a good example of untaxed cooperative savings providing exactly those services for which the tax revenues of the state are increasingly being utilized. On grounds either of financial necessity or of democratic theory, there would seem to be little purpose in imposing corporation taxes on such cooperatives.

"The second observation is that such examples of local initiative on the part of cooperatives are in the best tradition of self-reliance, independent action and genuine free enterprise. This type of free group enterprise is welcomed by the CCF, and no one would want to see it crippled by taxation. As Henry Wallace has remarked, 'The philosophy of the future will endeavour to reconcile the good which is in the competitive, individualistic, and libertarian concepts of the nineteenth century with the cooperative concepts which seem to me destined to dominate the late twentieth century.' That philosophy is being worked out in Canada by our Canadian cooperatives, and we owe it the fullest and freest opportunity to develop, unhindered by restrictive taxation on the part of the state.

"Ultimately, one's point of view on the taxation of cooperatives depends, not upon the technical issues in dispute, but upon one's conviction (or lack of conviction) of the economic and social values of cooperatives.

"Democratic Nature of Cooperatives is
Final Answer"

"The resolution of the Hot Springs Conference has ably summarized these values of the cooperative movement. They may be restated in the words of George Mooney: 'On the one hand cooperation serves to curb the growth of monopoly; secondly, to check the wastefulness of private

business; thirdly, to restore to the community in the form of patronage dividends additional purchasing power that would otherwise flow into profits distributed among the comparative few. Finally, it provides a mechanism whereby the business of the market place can be brought under democratic control'. (Cooperatives Today and Tomorrow: A Canadian Survey, p. 12).

"The democratic nature of cooperative organization is the final answer to the opponents of the present tax exemptions for cooperatives. In every way that the people themselves, locally organized, take into their hands the administration of the nation's economic life, is the health of society advanced. The local cooperative provides one of the best means of decentralization of power under democratic control. From participation in the management and the educational activities of cooperatives come more intelligent citizens, whose contribution to the democratic society of tomorrow will be of increasing importance.

'The society of the future', declares Henry Wallace, 'will not only emphasize the cooperative welfare as contrasted with individualistic competition, but it will emphasize life as contrasted with mechanics. The cooperative philosophy is the vital idea of the twentieth century that is bound to translate itself in time into the hard facts of social mechanisms and reality. Nothing is more important than that more and more people become actively imbued with the idea of a cooperative society.'

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H. MOORE

Secretary,
Food Distributors of Manitoba
having been duly sworn,
testified as follows

BY MR. PARKER:

Q. Did you prepare this brief? A. Yes.

Q. Has it been submitted to your association?

A. Yes.

Q. In what form? A. It was approved by the executive.

Q. Consisting of how many members? A. Twenty-two.

Q. All present? A. Yes.

Q. And how many actual members have you? A. 580.

Q. It was not submitted to the membership at large?

A. No.

Q. Will you read the brief? A. It is as follows:

"This brief is presented by The Food Distributors of Manitoba, a corporation composed of 580 members including retail grocers, retail butchers, general merchants, wholesale meat dealers, and processed meat manufacturers, in Greater Winnipeg, and throughout the Province of Manitoba.

"We base our protest on principle, for the following reasons. We believe the present protection from taxation given to cooperatives, whereby they are enabled to accumulate their profits, is neither fair, just, or reasonable, and a decided detriment to all other independent retail distributors, as well as:

- (1) Deliberately destroying private enterprise
- (2) Definitely defeating progress by destroying initiative
- (3) Develops unemployment, which in turn creates poverty
- (4) Is unfair competition to all other business interests
- (5) Tends to defeat our government out of much needed

revenue, which in turn, places an added burden upon those who pay taxes, i.e., all other business interests, and taxable wage earners.

"With respect to 'Private Enterprise'

"The fact that cooperatives are exempt from taxation of their income, profits, or surpluses, call them what you will, it means the same, enables them to accumulate all tax free profits and to use them as operating funds. This private enterprise are unable to do, as they are required to pay taxes - corporation, income and excess profit taxes. The question has been asked - what is the definition of profits? Our viewpoint is that profits - income, surpluses, whatever you choose to call them - are any pecuniary gain in business, or elsewhere, i.e., any pecuniary gain procured legally or illegally if it can be discovered, from merchandising or otherwise, after deducting legitimate costs, expenditures and overhead. If cooperatives can, and they do, accumulate capital in that manner, what else can it be called but profits.

"A corporation, company, or private business, other than a cooperative is taxed on all income, less allowable deductions, no matter how these earnings are ultimately used -- all these profits of business interests other than cooperatives are taxed as their income, regardless of whether they are later paid out, in part, or wholly, to shareholders, or partners as dividends or not, or whether these profits are held for some other purpose, such as contemplated expansion in business. Then further, if these business interests, other than cooperatives have earned in excess of their usual or what is termed 'standard profits' they are required to pay the excess profits tax.

"Cooperatives, on the other hand, while existing and operating under similar economic conditions, under the same corporation laws, and protection as the non-cooperative businesses, pay less if anything at all, towards the upkeep of the dominion. This, in our opinion, is unfair and contrary to all business ethics.

"If these cooperatives continue to progressively increase as they have been doing in the immediate past, the majority of other business interests may find it necessary to adopt the cooperative system, then what will happen? Who will pay the taxes? The present situation governing cooperatives, if continued, will in our opinion tend to develop a monopolistic state of affairs. There will be no such thing as private enterprise. Then what? Will we then have democracy, socialism, or dictatorship?

"We do not know of anything to take the place of private enterprise today; then, do not let us destroy it.

"Initiative

"A cooperative is a controlled body, controlled by a governing committee, sometimes, probably more often by inexperienced men and/or women, creating an ever present danger to the health of every community. We refer particularly to cooperatives handling foodstuffs destined for human consumption. These committees or governing bodies control and dictate the policy of the organization as to how they will buy, what they will buy, when they will buy, and from whom they will buy, and also determine the handling, storing, preserving and distribution of supplies - foodstuffs for human consumption. In other words, these cooperatives, whenever possible, buy for and from themselves, and sell to themselves. In view

of this state of affairs what incentive will our business-inclined young men and women have to take any chance of investing what money they have saved for the purpose of going into business for themselves if they have to compete against such conditions. How many of our young returned veterans from the present war may have the desire to--and if we take what happened after the last war as a criterion, many of them will desire to go into business for themselves--what chance have they to succeed if faced by such unfair competitive activities. They will require to pay taxes on their profits or income, while their competitors, these cooperatives are exempt from taxation and can defeat them two ways:

- (a) Sell at prohibitive prices to get the business, which they are better able to do being exempt from taxation;
- (b) Can accumulate their free tax profits, which they can and no doubt will use to eliminate the private business interest.

"In reviewing the evidence so far placed before this Commission the question of how these cooperatives were deliberately forcing many of our independent private business interests to sell out to them has been mentioned. Our viewpoint from a brief survey would not support that allegation, as a matter of fact, the cooperatives do not require to use force. As the old saying goes 'there are more ways of killing a cat than by hanging it'. The usual procedure taken to acquire, or buy out independent stores is as follows. In many districts, particularly farming districts, these cooperatives are formed by the farmers themselves, farmers who were the customers of, and the 'lifeline' of the independent merchants in those districts,

without them the independent merchants could not exist. These farmers or their appointed committee would approach the merchant and state they had formed a cooperative, and rather than open a store as a competitor they offer to buy the merchant out. What can the merchant do? What would you do? Whether you call this method force or not is probably a debatable question. We have a man working for us now who was bought out in that manner. The terms of purchase were a small cash payment, the balance being paid out of the profits as they came in.

"The present cooperative system is definitely destroying the initiative necessary to progress, and freedom in business.

"Unemployment:

"We can only judge fairly any situation with any degree of correctness by experience, and experience has shown that these cooperative stores, being owned stock, lock and barrel as it were by the members, if this is not so, it is not a true cooperative, and the members, feeling it is their own store, and no doubt being anxious to recover as much profit as possible, part of which they probably expect will be paid to them, sooner or later, in the form of dividends tolerate much less service than they would tolerate in any privately owned store. It is therefore no secret that cooperatives do not employ as much help as the independent operator. This definitely creates unemployment.

"Many of the independent owned stores bought out by cooperatives, many of them no doubt bought by accumulated capital from tax free profits, from other cooperative units already established, were stores owned by men and/or

women who had invested their all to provide a means of livelihood for themselves and their family for life, but when they were bought out in the manner already mentioned, bought out in many cases at a price that did not mean much to them, at a price that did not provide them with the means of a retiring independency which they may have had with their store investment. What ultimately happens? The result is that both the merchant and his employees, if any, are left out on a limb as it were, looking for work--none available that they can undertake--a difficult position to be placed in today, and will be much more difficult when the war is over, thus adding to the unemployment list.

"If these cooperative stores were subject to the same basis of taxation as the independent stores, instead of being exempt from taxation, they would never have been able to accumulate any tax free capital to purchase any business, and the independent merchants would still be in business. If, on the other hand, they were able to buy any business with capital obtained otherwise, the merchant might not be willing to sell, it being his livelihood, and if the cooperative opened their store as a competitor, the merchant could only consider it as fair competition, and no danger otherwise. Fair competition is the life of trade, and the Food Distributors in Manitoba are not afraid of it.

"The establishment of these cooperatives in any district does, therefore, in our opinion, create unemployment, and unless they are brought under the same taxation basis as private enterprise, it will be an ever present danger in that respect, and will be more so under normal conditions.

"Unemployment fosters poverty, discouragement,

unhappiness and crime.

"Unfair Competition

"Is there any question of doubt, that under present conditions whereby cooperatives are exempt from taxation, corporation, income or excess profits tax, that such exemption is unfair. Let us take as an example any town or village with two stores; one store is owned and operated by an independent merchant, who has been a pioneer in the industry; who has been an indispensable part of, the bulwark of, the residents in that community for many years, more years than one cares to look back upon -- established long before cooperatives were ever thought of there; probably he fed, clothed, and otherwise took care of everyone in the district when in need, by extending credit to them during times of depression or between harvests - performing the service as a duty to the community, often at great sacrifice. In many instances merchants have had to write off large sums as bad debts, uncollectable, on money that he has already paid the income tax on. This merchant is today subject to taxation of his income, profits, surplus or whatever you choose to call it, doing his part cheerfully to share in the upkeep of the state.

"The other store is a cooperative, composed of a group of members, farmers and others, many of whom were amongst those whom the independent merchant maintained in time of need. This store under the existing law 'is exempt from taxation' of income, profits, surplus, whatever you choose to call it and is thereby in a much more favourable position - in a position to accumulate all taxfree funds - and can and no doubt will, use these funds in many ways to the detriment of the old established independent merchant, who may be obliged to choose between two



evils - sell to the cooperatives, or go bankrupt. As a matter of fact, many of these cooperative stores do not confine their sales to members only; they will sell to almost anyone who has the cash to buy, and no doubt the members of the cooperative concerned will share in the profits of these sales in the form of dividends, sales that should have been refused and should have gone to the independent merchant. This is also an unfair trade practice and should disqualify such cooperatives who are not, in our opinion, true cooperatives.

"However, let it be understood that as far as the independent retail food distributors in Manitoba are concerned, their protest as now presented is not directed against the establishment of cooperatives handling general merchandise, or any other stores for that matter; they are not afraid of fair competition, but they do protest the present state of affairs, and they feel it is only fair to expect, and demand, that if any community of farmers, or others, or both, take it upon themselves to go into any competitive business in addition to their own particular adopted sphere of effort as a 'side line' or for any other reason, 'for profit' they should only be allowed to do so on an equal basis with all other business interests, with respect to licences, controls, taxation - otherwise there will be permanently exist discrimination, unfair and unjust competition.

"Government Revenue:

"In Saskatchewan during the fiscal year ending April 30, 1944, the following figures were released in our local press, November 16th last. There were

and the author of the book.

"839 Cooperative organizations operating in 2,270 different localities, with 286,333 members -- 32.1 per cent of the 1941 census -- 889,000 with assets of \$94,000,000. The volume of business done was \$182,451,000 being an increase over the previous year of 36,000 members, and \$77,000,000 in volume of business.

"If we take the figures from all of the cooperatives throughout the Dominion of Canada, the loss of revenue to the government in the form of taxation would be an enormous amount, revenue that would and should have paid taxes if cooperatives were subject to the same conditions imposed upon private enterprise.

"Who has to take care of those losses of revenue? Why, the independent business interests and the taxable wage earners, of course.

"General Remarks:

"The following questions were raised during the sittings of this Royal Commission:

WHAT IS A CO-OPERATIVE?

"Our definition of a cooperative is a body corporate composed of shareholders who are legally authorized to act in some business venture or service which is confined to members only, who are really the shareholders.

WHAT IS A CORPORATION?

"Our definition of a corporation is a body corporate composed of shareholders who are legally authorized to act in some business venture as one unit.

WHAT IS THE DIFFERENCE BETWEEN THE TWO?

"In our opinion, there is no difference other than the name. The one is composed of a group or body who call themselves members. The other call themselves shareholders.

We cannot see any difference between a joint stock company which pays dividends to its shareholders, and a merchandising cooperative which pays patronage dividends to its members.

"Mr. Ross, Solicitor for the Alberta Farmers Union, in addressing the Royal Commission in Edmonton, argued against the use of the terms profits, consumers dividends, etc., all of which he claimed was pure savings only, of the members of the cooperatives. He further claimed that the surplus, or profit, was the income of the farmers and should only be taxed when it is in the hands of the farmers. He said to subject these profits to the corporation tax first, and then again as income of the farmers, would be taxing the same income twice. This is exactly what is being done to all other business corporations, and if any change is made in the system, such change should apply equally to all.

"The question of who is involved should not enter into this investigation, whether it be farmer, merchant, or wage earner. The issue before the commission as we understand it is whether it is right and proper that cooperatives should be allowed to carry on any profitable business without being subject to the same regulations and laws, including taxation, as all other business interests.

"It is generally admitted that the exemption of cooperatives from taxation is unsatisfactory, unfair, demanding a clear, just and reasonable basis of taxation on an equal basis be established.

"Respectfully submitted.

Foor Distributors of Manitoba."

BY MR. PARKER:

Q. Has your association given any consideration as to what changes should be made in the law to correct the discrimination of which you complain? A. No. They would be satisfied if there was equal taxation. That is what we desire.

Q. That is as far as you have gone? A. Yes.

Q. On page two you ask a question but do not answer it. Can you answer it for us? In the third paragraph you say: "There will be no such thing as private enterprise. Then what? Will we then have, democracy - socialism - or dictatorship?" What do you think we shall have?

A. I don't know whether I can answer that. If it becomes all cooperative it will be socialism.

Q. I thought socialism meant that everything was controlled by the state instead of by individuals?

A. A friend of mine was talking about Eaton and Company and someone said that they had too much business, and another man said, "I wish they had it all". Then he was asked why, and he said, "Then we would take it over at once." He was asked who "we" were and he said, "The state." That is what happens to cooperatives.

Q. In the next paragraph you use strong language. You say: "A cooperative is a controlled body, controlled by the governing committee, sometimes, probably more often by inexperienced men and/or women, creating an ever present danger to the health of every community." What do you base that statement on? A. There are today, both in the country and in the city, quite a number of stores, I think I am safe in saying hundreds of stores, being operated by people who really don't know what they are doing with foodstuffs that are going into people's homes.

They don't know how to take care of goods.

Q. Do they not know as well as the retail distributors?

A. I am talking about retail distributors.

Q. I am talking about retail people who are not co-operatives. Aren't their stores in as good shape, as far as foodstuffs are concerned, as those of the people you represent? Why do you make that statement? A. The people we represent are altogether free from that, but we believe, in fact we are sure, that a lot of the people handling foodstuffs should not handle it.

Q. On page three you say: "These farmers or their appointed committee would approach the merchant and state they had formed a cooperative, and rather than open a store as a competitor they offer to buy the merchant out -- what can the merchant do?" Do you know of any cases where that is done? A. There is one man working for us; it was done to him. That is an example.

Q. Did he sell out? A. What else could he do? The farmers were his customers and they would start up themselves.

Q. Is there any objection to that? A. We are not objecting to the cooperatives being established but against their being free from taxation.

Q. On that same page you say: "It is therefore no secret that cooperatives do not employ as much help as the independent operator." A. We believe that.

Q. What do you mean by that? A. It is their own store and they will tolerate plenty where there is no tolerance for the independent merchant. If he serves me badly I will go out and won't come back. There is no doubt about that, Mr. Parker.

Q. I would think there would be considerable argument

about it if I were talking to a cooperative manager. These are only samples of the sort of statements you are making in this brief. Are you making these statements on your own personal knowledge after going around visiting stores, or are you drawing on your imagination? A. No. I am prepared to make those statements that are down there any time.

BY MR. SCARTH:

Q. Had you any statistics of the number of merchants who quit by reason of a change in stores? A. No.

Q. Or the number who have left business by reason of going to other centres? A. No.

Q. Have you thought of the effect of savings or profits going back into the community rather than to the store? A. I don't get that.

Q. Are you talking of country stores? A. I am speaking of cooperatives anywhere.

Q. Wherever they may be? A. Yes.

Q. The money does stay in the community, however? A. I don't know what they do with the money; I could not tell you that.

Q. Where the cooperatives open up and run their own business they do it for their own benefit? A. They are not doing it against themselves.

Q. I am taking your own statement. A. I have said that here and I mean it.

Q. And the money stays in the community? A. I did not say that.

Q. I am asking you now. A. I don't know what they do with the money but I do know they don't pay taxes and I think they should.

Q. That is the one point you are sure of? A. Yes.

THE CHAIRMAN: That concludes the sessions in Winnipeg.

MR. PARKER: That concludes all the business in Winnipeg, so far as I have knowledge.

THE CHAIRMAN: May I thank counsel of Winnipeg for their great assistance in the work the Commission is trying to do.

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The Commission thereupon adjourned to meet in Toronto on Monday, February 12, at 10 a.m.



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